

### Fiscal Estimate - 2019 Session

Original     
  Updated     
  Corrected     
  Supplemental

<b>LRB Number</b> <b>19-0154/1</b>	<b>Introduction Number</b> <b>AB-0220</b>
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**Description**  
 marijuana possession, regulation of marijuana distribution and cultivation, medical marijuana, operating a motor vehicle while under the influence of marijuana, requiring the exercise of rule-making authority, granting rule-making authority, making an appropriation, and providing a penalty

**Fiscal Effect**

**State:**

<input type="checkbox"/> No State Fiscal Effect	<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"/> Indeterminate	<input type="checkbox"/> Decrease Existing Revenues	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
<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	5. Types of Local Government Units Affected
<input 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	

Towns       Village       Cities  
 Counties       Others      Baseball District  
 School Districts       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 type="checkbox"/> SEG <input type="checkbox"/> SEGS	20.566 (1) (bn)

<b>Agency/Prepared By</b>	<b>Authorized Signature</b>	<b>Date</b>
DOR/ Travis Arthur (608) 266-8565	Jamie Adams (608) 266-6785	6/4/2019

## Fiscal Estimate Narratives

DOR 6/4/2019

LRB Number	<b>19-0154/1</b>	Introduction Number	<b>AB-0220</b>	Estimate Type	<b>Original</b>
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### Assumptions Used in Arriving at Fiscal Estimate

The bill changes state law regarding the manufacture, distribution, delivery, and possession of marijuana.

The bill also creates a process by which a person may obtain a permit to produce marijuana, to process marijuana into usable marijuana or marijuana-infused products, or to sell usable marijuana or marijuana-infused products to consumers. 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, retailers and microbusiness. The bill imposes an excise tax of 15% of the sales price on each wholesale sale or transfer in this state of marijuana by a marijuana producer to a marijuana processor or to another marijuana producer in this state (including microbusinesses transferring marijuana to processing operations within the microbusiness). In addition, an excise tax of 10% of the sales price on each retail sale in this state of usable marijuana sold at a marijuana retailer.

The bill establishes a permit requirement for marijuana producers, processors, and retailers, subject to a competitive scoring system, and imposes an application fee of \$250 and an annual fee of \$2,000.

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.

### FISCAL EFFECT

Given that marijuana cultivation and possession is illegal in Wisconsin there is no state-specific data available to construct an accurate estimate. The estimated amounts below reflect a developed market for marijuana in this state. It will likely take months, or even years, for businesses to establish operations in this new market. The estimates below do not account for price disruption caused by illegal sales of marijuana. To the extent the taxes result in a final retail price that exceeds black market prices, the estimated revenue may not materialize.

Using data from the Colorado Marijuana Enforcement Division's annual reports, the US Substance Abuse and Mental Health Services Administration and the US Census Bureau to estimate marijuana usage rates and population differences, the department estimates that an excise tax imposed on sales to marijuana processors at the rate of 15% would result in an excise tax revenue increase of \$65.1 million on an annual basis. This amount would include marijuana that flows from producer to processor to compassion centers.

The bill also imposes a 10% excise tax on marijuana retailers. This tax rate is not imposed on sales by compassion centers. Based on Colorado's tax collections, and adjusting for population and marijuana consumption differences between the states, the retail tax would result in additional excise tax revenue of \$67.1 million on an annual basis.

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 marijuana are expected to yield \$33.6 million on an annual basis. County and stadium taxes made up 7.9% of the state sales tax in FY18, assuming this ratio does not change, county and stadium tax revenues are expected to increase \$2.7 million on an annual basis.

Under the bill, each producer, processor, and retailer needs to obtain separate permits to engage in their marijuana-related business activities. For illustrative purposes, assuming the department issues a total of 300 permits, fee revenue for FY19 is estimated to be \$75,000. Further, assuming all permits are renewed, and a 20% increase in issued permits, fee revenue for FY20 is estimated to be \$615,000 ( $300 * \$2,000$ ) + ( $60 * \$250$ ).

#### ADMINISTRATIVE COSTS

The department estimates one-time administrative costs of \$305,000 for updating the state's tax processing system to accommodate the new tax, along with \$143,000 for staff and equipment in the tax compliance bureau and cash handling operations, \$181,000 for revenue agents and auditors, and \$1.1 million for enforcement. Total one-time costs for implementation of the new tax are expected to be \$1.73 million.

Ongoing administrative expenses for revenue agents (2 FTE) and auditors (1 FTE) are estimated to cost \$270,310. Ongoing expenses for compliance field agents (2 FTE) and related supplies are estimated to cost \$179,740.

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 \$1.46 million.

Total on-going costs related to administration, enforcement and compliance are estimated to be \$1.91 million.

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

## Fiscal Estimate Worksheet - 2019 Session

Detailed Estimate of Annual Fiscal Effect

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<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 for supplies, materials, software development and staffing to establish the new tax are estimated to be \$1.73 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	\$1,460,000	\$
	(FTE Position Changes)	(17.0 FTE)	
	State Operations - Other Costs	450,050	
	Local Assistance		
	Aids to Individuals or Organizations		
	<b>TOTAL State Costs by Category</b>	<b>\$1,910,050</b>	<b>\$</b>
<b>B. State Costs by Source of Funds</b>			
	GPR	1,910,050	
	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	\$	\$
	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	\$1,910,050	\$
	NET CHANGE IN REVENUE	\$see text	\$see text

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