

Fiscal Estimate - 2021 Session

Original
 Updated
 Corrected
 Supplemental

LRB Number 21-5888/1	Introduction Number AB-1067
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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 checked="" type="checkbox"/> No Local Government Costs	5. Types of Local Government Units Affected	
<input type="checkbox"/> Indeterminate	<input type="checkbox"/> Towns <input type="checkbox"/> Village <input type="checkbox"/> Cities <input type="checkbox"/> Counties <input type="checkbox"/> Others <input type="checkbox"/> School Districts <input type="checkbox"/> WTCS Districts	
1. <input type="checkbox"/> Increase Costs	3. <input type="checkbox"/> Increase Revenue	
<input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory	<input 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	

Fund Sources Affected	Affected Ch. 20 Appropriations
<input type="checkbox"/> GPR <input type="checkbox"/> FED <input type="checkbox"/> PRO <input type="checkbox"/> PRS <input checked="" type="checkbox"/> SEG <input type="checkbox"/> SEGS	25.56 Medical marijuana fund

Agency/Prepared By	Authorized Signature	Date
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Fiscal Estimate Narratives

DOR 3/11/2022

LRB Number	21-5888/1	Introduction Number	AB-1067	Estimate Type	Original
Description 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. 38 states have legal medical marijuana, 18 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.

This estimate uses the most recent data from the Michigan Marijuana Regulatory Agency Statistical Report and the average retail prices per milligram of THC infused products from select states.

DOR is using the population estimates from the US Census Bureau, the number of patients enrolled in the Michigan medical marijuana program from the Michigan Marijuana Regulatory Agency and the average retail price per milligram of THC from select states as reported by HEADSET (a tech company that provides a cannabis market and business intelligence solutions). The department also uses medical marijuana markup data from BOTEC Analysis Corporation.

Method 1: Based on Michigan Data

The total number of medical marijuana patients in Michigan as of December 2021 was 237,741. Of these 38,966 (16.39%) have the same qualifying medical conditions as those allowed under the Wisconsin bill. Using this information and the 2021 population estimates for Michigan and Wisconsin, the department estimates that the total number of qualified patients that will register under the Wisconsin program to be 22,858. The average retail price per milligram of THC infused products (Beverage, Edible, Capsule, Tincture/Sublingual and Topical) for some select states (CA, CO, NV, WA) is \$0.26. The medical marijuana retail markup is 114% resulting to a wholesale price of \$0.12/mg. According to MEDCAN (a provider of healthcare solutions), the daily dose average for THC is 10mg to 20mg (2). Assuming an average daily dose of 20mg per patient per day, the estimated wholesale sales will be about \$20.0 million (22,858 x 20mg x \$0.12 x 365 days). At a 10% excise tax rate, the estimated tax is \$2.0 million.

Method 2: Based on Minnesota Average Price

The Wisconsin Department of Health estimates 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%).

Using the daily dosage, average retail prices in Minnesota and a wholesale discount rate of 81% (average discount rates for MI, CA, WA, and CO), the department estimates wholesale sales of \$21.0 million. At a 10% excise tax rate, the estimated tax is about \$2.0 million.

Previous estimates using different data sources also suggested potential excise tax revenue of approximately \$2.0 million. The actual revenues could be higher or lower to the extent prices, and quantities sold differ from the estimate.

Licensing Fee

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 licenses:

Producer licenses:

Class A (up to 200 plants) a maximum of 50 licenses, Class B (up to 500 plants) a maximum of 20 licenses, and Class C (unlimited number of plants) a maximum of 5 licenses.

Processor License:

There are no limits set for the number of processor licenses to be issued. Michigan has 120 processors as of December 2021, assuming Wisconsin will issue a proportionate amount of processor licenses based on the population ratio between the 2 states, the department estimates that Wisconsin will issue a maximum of 70 licenses (59% of 120).

Dispensary Licenses:

The number of dispensaries allowed are dependent on the population of the county. Counties with population of 500,000 or more, a maximum of 10 licenses each (2 counties meet this criteria), 5 licenses each for counties with populations of 100,000 but less than 500,000 (14 counties meet this criteria), and 3 licenses each for counties with populations of less than 100,000, (56 counties meet this criteria).

Revenue from Application Fee

Assuming a modest number of licenses are issued, 1 Class A, 1 Class B, 1 Class C, 1 Processor, 72 dispensaries (one per county) at the minimum application fee, the total revenue from the application fees will be \$200,000. On the other hand, assuming the maximum number of licenses are issued, 50 Class A, 20 Class B, 5 Class C, 70 processors, 258 dispensaries (each county issuing the maximum allowed) at the maximum application fees, the total revenue from application fees will be \$4.0 million.

Revenue from Registration Fee

Again, assuming the minimum number of licenses at the minimum registration fees and the maximum number of licenses at the maximum registration fees, the department estimates revenues from registration fees will range from \$800,000 to \$25.0 million respectively.

Total revenues from licenses application and registration fees ranges from a minimum of \$1.0 million to a maximum of \$30.0 million.

Licenses are renewed annually. Assuming a 100% renewal rates, renewal fee revenues for the second year will range from a minimum of \$700,000 to a maximum of \$31.0 million.

Sales and Use Tax

The bill would provide a sales tax exemption for medical marijuana. Since the newly legal product would not be subject to sales tax there is no revenue decrease for the state. Foregone sales/use tax revenue would be approximately \$2.2 million (22,858 x 20mg x \$0.26 retail price x 365 days x 5% state sales tax).

Administrative Costs

The department estimates one-time administrative costs of \$409,010 for updating the state's tax processing system to accommodate the new tax in the Enterprise Services Division (ESD), \$463,030 for IS Business Automation and System Development in the Division of Technology Services (DTS) and \$2,028,720 for revenue agents, excise tax agents, auditors, supervisors, and managers for the Income Sales and Excise Tax Division (IS&E). Total one-time/first year costs for implementation of the new tax are expected to be \$2.90 million.

Administration of the new law would require additional staffing in the department. Ongoing administrative expenses for staff and related supplies, services, equipment, and office space for ESD and IS&E are estimated at \$403,280 and \$3,859,000 respectively.

The department estimates the need for the following new positions, 1 accountant, under the ESD; 12 revenue agents, 6 excise tax agents, 1 excise tax agent supervisor, 5 revenue auditors, and 1 audit supervisor under the IS&E Division; and 5 appointed commissioners.

Total on-going costs related to administration, enforcement and compliance are estimated to be \$4.26 million.

Long-Range Fiscal Implications

Fiscal Estimate Worksheet - 2021 Session

Detailed Estimate of Annual Fiscal Effect

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LRB Number 21-5888/1		Introduction Number AB-1067	
Description Medical marijuana, granting rule-making authority, and providing a penalty			
I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect): Medical marijuana, granting rule-making authority, and providing a penalty			
II. Annualized Costs:		Annualized Fiscal Impact on funds from:	
		Increased Costs	Decreased Costs
A. State Costs by Category			
State Operations - Salaries and Fringes	\$3,486,280		\$
(FTE Position Changes)	(31.0 FTE)		
State Operations - Other Costs	776,000		
Local Assistance			
Aids to Individuals or Organizations			
TOTAL State Costs by Category	\$4,262,280		\$
B. State Costs by Source of Funds			
GPR			
FED			
PRO/PRS			
SEG/SEG-S (Medical marijuana)	4,262,280		
III. State Revenues - Complete this only when proposal will increase or decrease state revenues (e.g., tax increase, decrease in license fee, etc.)			
	Increased Rev		Decreased Rev
GPR Taxes	\$		\$
GPR Earned			
FED			
PRO/PRS			
SEG/SEG-S			
TOTAL State Revenues	\$		\$
NET ANNUALIZED FISCAL IMPACT			
	<u>State</u>		<u>Local</u>
NET CHANGE IN COSTS	\$4,262,280		\$
NET CHANGE IN REVENUE	\$See text		\$
Agency/Prepared By Authorized Signature Date			
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