HB11-1250

Colorado Legislative Council Staff Fiscal Note

STATE FISCAL IMPACT

Drafting Number:	LLS 11-0764	**Date:**	February 28, 2011
Prime Sponsor(s):	Rep. Acree Sen. Renfroe	**Bill Status:**	House Judiciary
		Fiscal Analyst:	Clare Pramuk (303-866-2677)

TITLE: CONCERNING A PROHIBITION ON INGESTIBLE MEDICAL MARIJUANA-INFUSED PRODUCTS.

Fiscal Impact Summary	FY 2010-2012	FY 2011-2012	FY 2012-2013
State Revenue			
General Fund	($22,000 to $44,000)	($69,000 to $138,000)	($71,000 to $143,000)
Cash Funds			
Medical Marijuana License Cash Fund		(194,950)	(194,950)
State Expenditures			
Cash Funds			
Medical Marijuana License Cash Fund		($104,683)	($156,550)
Unemployment Insurance Trust Fund	potential increase	potential increase	potential increase
FTE Position Change		(2.0 FTE)	(2.5 FTE)
Effective Date: Upon signature of the Governor, or upon becoming law without his signature.			
Appropriation Summary for FY 2011-2012: See State Appropriations section.			
Local Government Impact: See Local Government section.			

Summary of Legislation

This bill prohibits the manufacture and sale of medical marijuana-infused food and beverage products.

State Revenue

This bill is expected to reduce General Fund sales tax revenue by up to $44,000 in the current fiscal year, up to $138,000 in FY 2011-12, and up to $143,000 in FY 2012-13. Cash Fund revenue from fees is expected to be reduced by $194,950 annually.

Sales tax revenue. The fiscal note assumes that 25 to 30 percent of medical marijuana sales are attributed to the sale of medical marijuana-infused food and beverage products. The fiscal note further assumes that if these become illegal, 80 to 90 percent of patients will change to a different delivery system for their medication. This will restore a significant amount of the lost sales tax revenue. The other 10 to 20 percent of patients may be unwilling or unable to change from edibles. As such, the fiscal note assumes a three to six percent net decline in state sales tax revenue.

Licenses. A decline in the number of medical marijuana infused-products manufacturing licenses will reduce the amount of revenue from fees. The exact fee amount will depend on the number of manufacturers that can change their business plans to produce something other than the products prohibited by this bill. The fiscal note expects that about 50 percent of the 325 manufacturers will cease operations as a result of this bill which equates to a reduction of $194,950 per year to the Medical Marijuana License Cash Fund.

State Expenditures

This bill will reduce state expenditures by $104,683 and 2.0 FTE in FY 2011-12, and $156,550 and 2.5 FTE in FY 2012-13 from the Medical Marijuana License Cash Fund. It may also increase state expenditures for the Unemployment Insurance Trust Fund and the Office of the Attorney General as shown below, although these potential costs have not been estimated.

Licensing. In the short term, the Department of Revenue will be required to ensure that medical marijuana-infused products manufacturers whose products are prohibited under this bill, cease production. This is expected to result in several months of increased workload which can be addressed within existing appropriations. With an anticipated reduction of 162 licensees, expenditures are expected to decrease by $104,683 and 2.0 FTE in FY 2011-12. For FY 2012-13, expenditures are expected to decrease by $156,550 and 2.5 FTE. The department will have fewer manufacturers to license and inspect, so will have a reduction in workload.

Table 1. Expenditures Under HB11-1250

Cost Components	FY 2011-12	FY 2012-13
Personal Services	($102,783)	($154,175)
FTE	-2.0	-2.5
Operating Expenses and Capital Outlay	(1,900)	(2,375)
TOTAL	**($104,683)**	**($156,550)**

Unemployment Trust Fund. To the extent that medical marijuana-infused manufacturers close as a result of this bill, the fiscal note assumes that some employees would be laid off and could seek unemployment benefits, which would increase expenditures from the Unemployment Insurance (UI) Trust Fund. The impact will depend on the way medical marijuana edibles manufacturers respond to the prohibition on edibles. For each person who loses a job, expenditures from the UI Trust Fund increase by approximately $6,000 per year.

Lawsuits. The Department of Revenue collected $389,900 in licensing fees from 325 medical marijuana-infused products manufacturers. The fiscal note assumes that some of these manufacturers will seek remedies for their losses through the court system. This will require the Office of the Attorney General to defend the state. No cost is being estimated at this time.

Expenditures Not Included

Pursuant to a Joint Budget Committee policy, certain costs associated with this bill are addressed through the annual budget process and centrally appropriated in the Long Bill or supplemental appropriations bills, rather than in this bill. The centrally appropriated costs subject to this policy are summarized in Table 2.

Table 2. Expenditures Not Included Under HB11-1250*

Cost Components	FY 2011-12	FY 2012-13
Employee Insurance (Health, Life, Dental, and Short-term Disability)	($14,200)	($17,750)
Supplemental Employee Retirement Payments	(4,651)	(8,220)
TOTAL	**($18,851)**	**($25,970)**

**More information is available at: http://colorado.gov/fiscalnotes*

Local Government Impact

To correspond with the reduction of state sales tax, local sales tax revenue is also expected to experience a three to six percent net decline. For Denver, this means a reduction of $66,000 to $132,000 for a full calendar year. Colorado Springs could see a reduction of $11,000 to $23,000 a year. For Grand Junction, the reduction would be $5,000 to $10,000 a year. Because the bill would become effective during the current fiscal year for cities, the effect for FY 2010 would be lower.

Local licensing authorities will also see a reduction in medical marijuana-infused products manufacturer licenses. The fiscal note assumes that local licensing authorities will increase fees for the remaining licensees to cover the loss in revenue.

Departmental Differences

To implement the bill, the Department of Corrections (DOC) identified a five-year fiscal impact of $793,727 to add two prison beds. The DOC anticipates a bed impact of one new class 4 felony and one new class 5 felony admission to prison per year. Medical marijuana-infused products manufacturers do not have the same constitutional protections as afforded to caregivers and registered patients. Because medical marijuana-infused products manufacturers are already subject to laws against controlled substances, this bill only further prohibits the production of edibles under state and local licensing authorities. As such, the bill does not create new violations. Further, the fiscal note assumes a high rate of compliance with the law. For these reasons, the costs for DOC are not included in the fiscal note.

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State Appropriations

For FY 2011-12, the Department of Revenue requires a reduction of $104,683 and 2.0 FTE from the Medical Marijuana License Cash Fund.

Departments Contacted

Corrections	Judicial	Labor and Employment
Law	Regulatory Agencies	Public Health and Environment