

Vermont Legislative Joint Fiscal Office

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FISCAL NOTE

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S.54 An act relating to the regulation of cannabis – Senate Judiciary Recommendation Of Amendment –Feb 22, 2019 Senate Calendar with Senate Finance Committee Recommendations, and Alternative Senate Appropriations Committee request

The bill proposes to tax and regulate the cultivation and sale of cannabis and cannabis containing products. The bill as recommended by Senate Judiciary establishes a Cannabis Control Board, a special fund for the board, and an excise tax at 10% with a local option tax at 2% on the retail sale of cannabis. The Senate Finance Committee recommends an excise tax rate of 16%.

Cannabis Board Cost Estimate

As recommended by Senate Judiciary the board would consist of five members that would be full-time state employees, in addition to an Executive Director, and an Executive Assistant. This recommendation proposes all five board members be paid a salary equivalent to 1/3 of a Superior Court Judge or approximately \$53,000 per year.

JFO has been requested to estimate the cost of an alternative board structure that consists of three members that would be full-time state employees, in addition to an Executive Director, and an Executive Assistant. This alternative proposes that the Board Chair salary be set at approximately \$105,000 per year and the salary of the two other board members be set at approximately \$80,000 per year.

The assumptions used in each cost estimate include: Executive Director salary at \$106,000; Executive Assistant salary at \$70,000; 40% benefit costs for full-time state employees; operating costs for space, IT, supplies etc. proportioned for the number of full-time state employees; an allowance for consulting costs that decline over the startup period; and capacity for General Counsel also declining over the startup period.

Based on the timeline of activities in the bill, the following chart provides two cost estimates to operate the Cannabis Control Board for 3 years.

Cannabis Control Board Est	FY20	FY21	FY22
Senate Jud - 5 Member Board	\$860,000	\$1,010,000	\$940,000
Alternate - 3 Member Board	\$810,000	\$960,000	\$890,000

The bill requires the Board to report next year on recommended fees for the various licenses established in the bill. To make a fee revenue estimate, JFO recommends an amendment that requires a minimum level for the fees. Our estimate assumes fees that are similar to those of the Massachusetts Cannabis Control Commission. Based on this minimum level; actual MA fee

collection experience to date; and the anticipated timeline of the bill; we estimate fees would begin to be collected in FY21 and result in an annualized amount of \$650,000 once this regulatory regime is in full operation.

Given these estimates, the Board’s special fund could be in deficit between \$1.5m-\$1.7m by the end of FY22. To cover the appropriations by anticipating receipts in this special fund in FY20 and FY21, we also recommend an amendment that allows excise tax receipts to be allocated contingently to offset any fund deficit at the close of FY22. If fees are set at levels higher than this minimum and/or actual fee collections are similar to the Colorado experience or the level Massachusetts originally estimated than this offset amount may be lower or not needed.

Additional state expenses in the Departments of Tax and Agriculture will likely need to be considered in the FY21 or FY22 budget process. The scope of these needs will become clearer when the Cannabis Control Board provides its reports next year. At that time a funding source for these expenses will also need to be identified.

Cannabis Excise Tax Estimate

Senate Finance Committee Recommend

- 16% excise tax, 2% local option

16% Retail Excise Revenue			
	Year 1 (FY22)	Year 2 (FY23)	Year 3 (FY24)
Low	3.8m	6.6m	8.6m
Mid	5.4m	9.3m	12.1m
High	7.4m	12.7m	16.6m