

Government of the District of Columbia
Office of the Chief Financial Officer



Jeffrey S. DeWitt
Chief Financial Officer

MEMORANDUM

TO: The Honorable Phil Mendelson
Chairman, Council of the District of Columbia

FROM: Jeffrey S. DeWitt
Chief Financial Officer 

DATE: October 13, 2015

SUBJECT: Fiscal Impact Statement – Medical Marijuana Reciprocity Amendment Act of 2015

REFERENCE: Bill 21-210, Draft Committee Print sent to the Office of Revenue Analysis on September 24, 2015

The previous fiscal impact statement incorrectly stated that the sales tax on medical marijuana is 5.75 percent.

Conclusion

Funds are not sufficient in the fiscal year 2016 through fiscal year 2019 budget and financial plan to implement the bill. The bill will cost \$250,000 to implement in FY 2016 and \$899,000 over the four-year financial plan.

Background

The bill allows¹ people who have a valid medical marijuana card from another state to buy medical marijuana in the District. These people will not have to register as medical marijuana patients with the Department of Health since they are already registered in another state.

The bill also requires² medical marijuana cultivation centers and dispensaries to electronically track sales and employee information in real-time. While not explicitly stated in the bill, the drafters note that the Council intends for the Department of Health (DOH) to develop and administer the database, though cultivation centers and dispensaries will bear some of the costs of the database since they will need to access it.

¹ By amending D.C. Official Code § 7-1671.02(c).

² By amending D.C. Official Code § 7-1671.01 *et seq.*

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The bill removes³ the limit on the number of marijuana plants a cultivation center can grow. Currently the limit is 1,000 plants per center.

Financial Plan Impact

Funds are not sufficient in the fiscal year 2016 through fiscal year 2019 budget and financial plan to implement the bill. The bill will cost \$250,000 to implement in FY 2016 and \$898,000 over the four-year financial plan.

One component of the bill's cost is the real-time, electronic database that cultivation centers and dispensaries will use to track sales. Based on the experience of Colorado, which built a database with partial funding from cultivation centers and dispensaries, the Office of Revenue Analysis believes it will cost the District about \$250,000 to build the database in FY 2016 and \$175,000 a year in subsequent years for maintenance.⁴

The other cost of the bill comes from removing the limitation on the number of plants cultivation centers can grow each year. The current limitation on plants is 1,000 plants per center, a number a couple of the city's cultivation centers are close to exceeding. Once the centers are collectively growing more than 10,000 plants, which the Department of Health thinks could happen as early as FY 2017⁵—DOH will need to hire one more inspector, which will cost over \$100,000 a year.

Cost of Implementing Bill 21-210, Medical Marijuana Reciprocity Amendment Act of 2015, FY 2016 - FY 2019					
	FY 2016	FY 2017	FY 2018	FY 2019	Four-Year Total
Electronic database	\$250,000	\$175,000	\$175,000	\$175,000	\$775,000
Cultivation center inspector ¹	\$0	\$110,015	\$114,416	\$118,992	\$123,752
Total	\$250,000	\$285,015	\$289,416	\$293,992	\$898,752

Notes:

¹ Grade 12, Step 7 inspector. Costs include fringe benefits and cost increases of 4 percent a year.

The District charges a 6 percent sales tax on medical marijuana, but the Office of Revenue Analysis does not believe that reciprocity will increase sales tax revenue over the next two years. Cultivation centers are barely keeping up with demand for medical marijuana in D.C.,⁶ and even if the centers are able to grow 10,000 plants by FY17, that will only be enough to meet demand from D.C.

³ By repealing DC Official Code § 7-1671.06(e)(2).

⁴ Washington State, which covered the full costs of a real-time, electronic database to track its marijuana sales, spent \$800,000 to build the database and \$100,000 a year in maintenance.

⁵ The District's seven cultivation centers currently grow 2,800 plants all together. Growing 10,000 plants by some point in FY 2017 would be a large jump in growth, but it is possible since the number of medical marijuana patients in the District will surpass 10,000 in FY 2017 if the growth in patients continues at its current rate.

⁶ D.C.'s cultivation centers currently have 2,800 plants, which is typically enough to serve 2,800 people a year. However, there were 4,200 registered medical marijuana patients in D.C. as of August 2015.

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residents⁷, and it's unlikely the centers will be able to produce more than 10,000 plants. In other words, the amount of sales tax revenue we get will be determined by the number of plants the cultivation centers can grow, not the number of people buying the marijuana. Therefore, we do not think the legislation will affect revenue in FY 2016 or FY 2017. By FY 2018 and FY 2019 there could be an increase in revenue if cultivation centers are able to increase supply enough, but it is difficult to predict revenues that far in the future since states' medical marijuana laws are changing rapidly.

⁷ There are 4,200 registered medical marijuana patients in the District and that number has been increasing by about 300 people a month, meaning 10,000 people could be registered by FY 2017.