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:	**March 9, 2016**
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 March 2, 2016**

This fiscal impact statement replaces the statement we issued for this legislation on October 13, 2015. We are reissuing the statement because Council has made significant changes to the legislation.

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 about $277,000 to implement in FY 2016 and $1.3 million over the four-year financial plan.

Background

The bill makes the following changes to the District's medical marijuana program:

- **Electronic records:** the bill requires[1] 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.

- **Reciprocity:** the bill allows[2] a patient from another jurisdiction's medical marijuana program to purchase medical marijuana in the District, as long as DOH determines there is

[1] By amending D.C. Official Code § 7-1671.01 *et seq.*
[2] By amending D.C. Official Code § 7-1671.02(c).

no shortage of medical marijuana and the electronic tracking system is properly functioning.

- **Removal of plant limit:** the bill removes[3] the limit on the number of medical marijuana plants a cultivation center can grow. Currently the limit is 1,000 plants per center.

- **Cultivation center expansion:** the bill allows[4] cultivation centers to expand into adjacent spaces.

- **Cultivation center relocation or change in ownership:** the bill allows[5] cultivation centers to relocate or change ownership with the Mayor's permission. The Mayor must come up with a process for this within six months of the effective date of the bill.

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 about $277,000 to implement in FY 2016 and $1.3 million over the four-year financial plan.

The cost of the bill comes from three sources: the development and maintenance of the electronic database, the hiring of a program analyst, and the hiring of a cultivation inspector.

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 development	$250,000	$175,000	$175,000	$175,000	$775,000
Cultivation inspector[1]	$0	$0	$113,412	$117,948	$122,666
Program analyst[2]	$27,076	$112,638	$117,143	$121,829	$378,686
Total	**$277,076**	**$287,638**	**$405,555**	**$414,777**	**$1,276,352**

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

[2] Grade 13, Step 5 analyst; assumes analyst starts in July 2016. Costs include fringe benefits and annual cost increases of 4 percent a year.

DOH will develop the database in cooperation with cultivation centers and dispensaries. 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 IT support and maintenance.[6]

[3] By repealing D.C. Official Code § 7-1671.06(e)(2).
[4] By amending D.C. Official Code § 7-1671.01 *et seq.*
[5] By repealing D.C. Official Code § 7-1671.06.
[6] Unlike Colorado, Washington State covered the full costs of a real-time, electronic database without any funding from cultivation centers and dispensaries. Washington State spent $800,000 to build the database and $100,000 a year in maintenance.

The program analyst will oversee the development and use of the database; monitor medical marijuana supply and let dispensaries know when there is a shortage; and coordinate with other states and District dispensaries so dispensaries can properly identify qualifying out-of-state patients.

DOH will need to hire an additional cultivation inspector once cultivation centers are collectively growing more than 10,000 plants—a number of plants the centers can reach only if there is no plant limit. The Office of Revenue Analysis (ORA) believes that the centers could surpass 10,000 plants as early as FY 2018.[7]

The District does receive sales tax revenue from medical marijuana sales[8], but ORA does not believe that reciprocity will significantly increase sales tax revenue in FY 2016 or FY 2017. ORA expects sales to out-of-state patients to be nominal over the next two years since cultivation centers are currently struggling to meet the demand for medical marijuana in D.C.[9] By FY 2018, though, ORA projects that cultivation centers could produce enough medical marijuana to meet demand from D.C. residents plus out-of-state patients.[10] This could lead to an increase in sales tax revenue, but it is difficult to predict revenues that far in the future since states' medical marijuana laws are changing rapidly.

[7] The District's seven cultivation centers currently grow about 3,800 plants all together. Over the past five months, the centers have added an average of 200 plants per month, collectively.
[8] The sales tax is 6 percent.
[9] Using data from DOH, ORA estimates that cultivation centers are currently producing about 6,000 ounces of medical marijuana a month. To provide all registered patients with 2 ounces a month (the maximum allowable amount), the centers would need to be producing 7,000 ounces a month.
[10] Using DOH data, ORA projects that by FY 2018, cultivation centers could produce around 13,700 ounces of medical marijuana a month. ORA estimates the demand from D.C. patients in FY 2018 to be around 11,300 ounces a month.