

Individual State Agency Fiscal Note

Bill Number: 1260 HB	Title: Marijuana market	Agency: 195-Liquor and Cannabis Board
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Part I: Estimates

No Fiscal Impact

Estimated Cash Receipts to:

ACCOUNT	FY 2022	FY 2023	2021-23	2023-25	2025-27
Dedicated Marijuana Account-State 315-1	702,400	1,254,800	1,957,200	2,234,600	2,234,600
Total \$	702,400	1,254,800	1,957,200	2,234,600	2,234,600

In addition to the estimates above, there are additional indeterminate costs and/or savings. Please see discussion.

Estimated Operating Expenditures from:

	FY 2022	FY 2023	2021-23	2023-25	2025-27
FTE Staff Years	25.8	34.5	30.2	27.3	27.3
Account					
Dedicated Marijuana Account-State 315-1	2,725,734	3,400,452	6,126,186	5,475,414	5,475,414
Total \$	2,725,734	3,400,452	6,126,186	5,475,414	5,475,414

Estimated Capital Budget Impact:

NONE

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

- If fiscal impact is greater than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.
- If fiscal impact is less than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).
- Capital budget impact, complete Part IV.
- Requires new rule making, complete Part V.

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Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Briefly describe by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.

Sec.1 (1) Except as otherwise provided in this section, the privileges and requirements of a craft cannabis producer/processor license issued under this section are the same privileges and requirements of a marijuana producer license and of a marijuana processor license issued under RCW 69.50.325.

(2)(a) Except as provided in (b) of this subsection, the amount of the application fee is \$250 and the amount of the annual license fee for a craft cannabis producer/processor license is \$2,762.

(b)(i) The board shall establish a reduced application fee and reduced license fee for a craft cannabis producer/processor applicant or licensee who meets the definition of a social equity applicant in this section.

(ii) For an applicant who switches from operating under two marijuana producer licenses to one license under this section, the annual license fee is \$4,143 if the licensee is authorized to have up to an additional 30,000 square feet of seasonal sungrown production canopy in accordance with subsection (3) of this section. For an applicant who switches from operating under three marijuana producer licenses to one license under this section, the license fee is \$5,524 10 if the licensee is authorized to have up to an additional 60,000 square feet of seasonal sungrown production canopy in accordance with subsection (3) of this section.

(3)(a) The holder of a craft cannabis producer/processor license may not hold any other marijuana license issued under this chapter, including another craft cannabis producer/processor license

(5)(a) Beginning on the effective date of this section, a person, business, or entity who holds a marijuana producer license issued under RCW 69.50.325 and who qualifies for a license under this section, may opt to transition to a license issued under this section. A licensee who holds a processor license issued under RCW 2769.50.325 and who is transitioning to a craft producer/processor license is not required to pay an additional license fee. A licensee who does not hold a processor license under RCW 69.50.325 and who is transitioning to a craft producer/processor license must pay the difference in the license fee amounts to be issued a license under this section.

Sec. 2. A new section is added to chapter 69.50 RCW to read as follows:33 34

(1)(a) A task force on cannabis policy is established

(1)(a)(iii) The board shall appoint five members who are each a representative of a licensed craft cannabis producer/processor or a marijuana producer who has applied to convert a marijuana producer license to a craft cannabis producer/processor license, who wish to participate on the task force.

(iv) The board shall appoint one representative of the board.

(3) Staff support for the task force must be provided by the board.

(5)(a) Except as provided in (b) of this subsection, the expenses of the task force must be paid by the board and are subject to the board's approval.

II. B - Cash receipts Impact

Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.

The Liquor and Cannabis Board (LCB) estimates 600 new craft cannabis producer/processor licenses would be issued per year over the first 2 years of the bill taking effect for a total of 1,200 new licenses. The LCB assumes that two-thirds (400) of the 600 new craft cannabis producer/processor licenses per year would be issued to existing licensees transitioning from either a producer or producer/processor license. There is a total of 1,076 existing producer and producer/processor licenses, of which 13.5% are producer only. For the purpose of this fiscal note, the 13.5% ratio was applied to the two-thirds (400) of licensees estimated to transition to the new license in order to determine the estimated number of 54 producer only licensees that would transition. The remaining 346 existing licensees estimated to transition to the craft producer/processor license are assumed to be producer/processors. This distinction is important as producer only licenses would be required to pay an additional \$1,381 from their current annual license fee in order to obtain the craft producer/processor license, whereas the license fee will remain unchanged for existing producer/processor licenses that transition to the new license.

Note: For purposes of this fiscal note the LCB assumes in FY2024 and beyond the number of craft producer/processor licenses remains at 1,200 with the number of new licensees entering the market being offset by existing licensees deciding to leave the market.

CASH RECEIPT IMPACT:

APPLICATION FEES:

FY2022: 600 Applications x \$250 = \$150,000

FY2023: 600 Applications x \$250 = \$150,000

FY2024+: 50 Applications x \$250 = \$12,500

LICENSE FEE REVENUE FROM CRAFT CANNABIS LICENSE:

Producer only licenses transitioning to a craft producer/processor:

FY2022: 54 licenses x \$1,381 = \$74,574

FY2023+: 108 licenses x \$1,381 = \$149,148

Producer/Processor licenses transitioning to a craft producer/processor:

FY2022: 346 licenses x \$2,762 = \$955,652

FY2023+: 692 licenses x \$2,762 = \$1,911,304

New Licensees:

FY2022: 200 licenses x \$2,762 = \$552,400

FY2023+: 400 licenses x \$2,762 = \$1,104,800

Total Revenue from Craft Cannabis Licensing Fees:

FY2022: \$1,732,626

FY2023: \$3,315,252

FY2024+: \$3,177,752

LOST LICENSE FEE REVENUE FROM EXISTING PRODUCERS & PRODUCER/PROCESSORS TRANSITIONING:

Producer only licenses transitioning to a craft producer/processor:

FY2022: 54 licenses x \$1,381 = (\$74,574)

FY2023+: 108 licenses x \$1,381 = (\$149,148)

Producer/Processor licenses transitioning to a craft producer/processor:

FY2022: 346 licenses x \$2,762 = (\$955,652)

FY2023+: 692 licenses x \$2,762 = (\$1,911,304)

Total Revenue Lost from Existing Producers & Producers/Processors Transitioning:

FY2022: (\$1,030,226)

FY2023+: (\$2,060,452)

NET TOTAL CASH RECEIPTS IMPACT:

FY2022: \$702,400

FY2023: \$1,254,800

FY2024+: \$1,117,300

EXCISE TAX:

It is assumed this bill could generate additional excise tax as section 1(4) of the bill allows craft cannabis producer/processors to make retail sales from their licensed production facility. The cash receipt impact from the marijuana excise tax is indeterminate as the LCB does not make any assumption as to how much excise tax revenue could be generated.

II. C - Expenditures

Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.

This bill would create a new craft cannabis producer/processor license that allows the craft producer/processors to sell their product at retail from their licensed location. The product would be subject to marijuana excise tax on retail sales of marijuana products. Of the 1,076 currently licensed producer and producer/processor licenses, the Liquor and Cannabis Board (LCB) estimates 400 would apply to transition to the new craft cannabis license in the first year and 400 more would apply to transition in the second year. Additionally, an estimated 200 new applications a year over the first two years for the new license would have to be processed and licenses issued. This totals 1,200 craft cannabis producer/processor licenses issued with 600 licenses issued in the first year and 600 issued in the second year. This would increase workloads in the Licensing, Enforcement, Information Technology and Finance Departments.

FINANCE DIVISION

Marijuana Tax Unit:

Based on the workload increase of the tax reporting and collection the unit would require:

FY2022: 8.0 FTE Fiscal Analyst 2 - \$657,712/yr (\$635,552 salary/benefits, \$22,160 in associated costs).

Onetime costs in FY22 of \$48,840 for equipment purchases.

FY2023+: 12.0 FTE Fiscal Analyst 2 - \$986,568/yr (\$953,328 salary/benefits, \$33,240 in associated costs).

Onetime costs in FY23 of \$24,420 for equipment purchases.

Additional licenses for the Great Plains accounting software used by the Marijuana Tax Unit will need to be purchased annually for each additional FTE. The estimated cost per license is \$3,600.

FY2022: 8 FTE x \$3600 = \$28,800

FY2023+: 12 FTE x \$3600 = \$43,200

Auditors:

New licensees would need to be audited requiring

FY2022: 4.0 FTE Revenue Auditor 2 - \$442,148/yr (\$384,228 salary/benefits, \$57,920 in associated costs).

Onetime costs in FY22 of \$5,300 for equipment purchases.

FY2023+: 8.0 FTE Revenue Auditor 2 - \$884,296/yr (\$768,456 salary/benefits, \$115,840 in associated costs).

Onetime costs in FY23 of \$5,300 for equipment purchases.

The Audit department would require a supervisor for the additional staff.

FY2022+: 1.0 FTE Revenue Auditor 3 - \$119,185/yr (\$104,705 salary/benefits, \$14,480 in associated costs).

Onetime costs in FY22 of \$1,325 for equipment purchases.

A manager would be required to oversee the increase of FTE's in the Audit Department.

FY2022+: 1.0 FTE WMS Band 2 - \$119,480/yr (\$105,000 salary/benefits, \$14,480 in associated costs). Onetime costs in FY22 of \$1,325 for equipment purchases.

General Accounting:

There would be a workload increase in the mail room to process the additional tax reports and payments. Based on half the new payments being EFT and half as checks the General Accounting unit would require

FY2022+: 0.3 FTE Fiscal Analyst 2 - \$24,665/yr (\$23,834 salary/benefits, \$831 in associated costs).

LICENSING DIVISION

The review of all new applications and transferring of existing applications would require

FY2022: 8.0 FTE Licensing Specialist Senior - \$670,600/yr (\$648,440 salary/benefits, \$22,160 in associated costs). Onetime costs in FY22 of \$48,840 for equipment purchases.

FY2023: 8.0 FTE Licensing Specialist Senior - \$670,600/yr (\$648,440 salary/benefits, \$22,160 in associated costs).

FY2024+: 1.0 FTE Licensing Specialist Senior - \$83,825/yr (\$81,055 salary/benefits, \$2,770 in associated costs).

The preparation and support of the Licensing Specialist Seniors would require

FY2022: 0.1 FTE Customer Service Specialist 2 - \$7,149/yr (\$6,872 salary/benefits, \$277 in associated costs).

FY2023: 0.1 FTE Customer Service Specialist 2 - \$7,149/yr (\$6,872 salary/benefits, \$277 in associated costs).

Additional support staff would be required

FY2022: 0.1 FTE Office Assistant 3 - \$6,756/yr (\$6,479 salary/benefits, \$277 in associated costs).

FY2023: 0.1 FTE Office Assistant 3 - \$6,756/yr (\$6,479 salary/benefits, \$277 in associated costs).

ENFORCEMENT DIVISION

The LCB keeps detailed statistics on all of its enforcement activities and tracks this activity using a unit of measure called a Field Increment (FI). All direct enforcement activities such as premise checks, inspections and investigations are tracked to determine how many FI's are needed to accomplish each activity. Each FI is equivalent to 1/10th of an hour (6 minutes). For example, if a tavern premise check takes 2 FI's and two officers, it is anticipated that one check will consume 4 FI's. Using historical data to factor out indirect activities such as driving time, training, office time and leave, it has been determined that officers are available for an average of 4,220 FI's each year.

Premises checks, compliance checks, and licensee support and education would need to be conducted on the craft cannabis licensees. Based on the attached "1260 HB Craft Cannabis Production" Enforcement Field Increment Calculator the LCB would require:

FY2022: 1.0 FTE LCB Enforcement Officer 2 - \$122,005/yr (\$106,045 salary/benefits, \$15,960 in associated costs). Onetime costs in FY22 of \$26,795 for equipment purchases.

FY2023+: 2.0 FTE LCB Enforcement Officer 2 - \$244,010/yr (\$212,090 salary/benefits, \$31,920 in associated costs). Onetime costs in FY23 of \$26,795 for equipment purchases.

Additionally, 2 Compliance Consultants (Administrative Regulations Analyst 3) will be consulting with the LEO's

FY2022: 1.0 FTE Administrative Regulations Analyst 3 - \$116,239/yr (\$100,279 salary/benefits, \$15,960 in associated costs). Onetime costs in FY22 of \$10,215 for equipment purchases.

FY2023+: 2.0 FTE Administrative Regulations Analyst 3 - \$232,478/yr (\$200,558 salary/benefits, \$31,920 in associated costs). Onetime costs in FY23 of \$10,215 for equipment purchases.

INFORMATION TECHNOLOGY DIVISION

One time costs would be incurred in order to make internal system updates for sharepoint and replication along with AS400. One time vendor costs for the AS400 would be \$66,000. One time vendor costs related to the agency's in-flight systems modernization project would be \$2,500.

FY2022: 1.3 FTE IT App Development - Senior/Specialist - \$198,130/yr (\$196,739 salary/benefits, \$1,391 in associated costs). Onetime costs in FY22 of \$1,725 for equipment purchases.

Part III: Expenditure Detail

III. A - Operating Budget Expenditures

Account	Account Title	Type	FY 2022	FY 2023	2021-23	2023-25	2025-27
315-1	Dedicated Marijuana Account	State	2,725,734	3,400,452	6,126,186	5,475,414	5,475,414
Total \$			2,725,734	3,400,452	6,126,186	5,475,414	5,475,414

III. B - Expenditures by Object Or Purpose

	FY 2022	FY 2023	2021-23	2023-25	2025-27
FTE Staff Years	25.8	34.5	30.2	27.3	27.3
A-Salaries and Wages	1,655,015	2,147,382	3,802,397	3,490,100	3,490,100
B-Employee Benefits	663,158	877,715	1,540,873	1,407,952	1,407,952
C-Professional Service Contracts					
E-Goods and Other Services	193,111	171,005	364,116	269,038	269,038
G-Travel	89,740	154,340	244,080	300,680	300,680
J-Capital Outlays	124,710	50,010	174,720	7,644	7,644
M-Inter Agency/Fund Transfers					
N-Grants, Benefits & Client Services					
P-Debt Service					
S-Interagency Reimbursements					
T-Intra-Agency Reimbursements					
9-					
Total \$	2,725,734	3,400,452	6,126,186	5,475,414	5,475,414

III. C - Operating FTE Detail: *List FTEs by classification and corresponding annual compensation. Totals need to agree with total FTEs in Part I and Part IIIA*

Job Classification	Salary	FY 2022	FY 2023	2021-23	2023-25	2025-27
Administrative Regulations Analyst 3	72,756	1.0	2.0	1.5	2.0	2.0
Customer Service Specialist 2	46,644	0.1	0.1	0.1		
Fiscal Analyst 2	55,524	8.3	12.3	10.3	12.3	12.3
IT App Development - Senior/Specialist	114,984	1.3		0.7		
LCB Enforcement Officer 2	74,604	1.0	2.0	1.5	2.0	2.0
Licensing Specialist Senior	56,856	8.0	8.0	8.0	1.0	1.0
Office Assistant 3	43,392	0.1	0.1	0.1		
Revenue Auditor 2	69,264	4.0	8.0	6.0	8.0	8.0
Revenue Auditor 3	76,416	1.0	1.0	1.0	1.0	1.0
WMS Band 2	80,000	1.0	1.0	1.0	1.0	1.0
Total FTEs		25.8	34.5	30.2	27.3	27.3

III. D - Expenditures By Program (optional)

Program	FY 2022	FY 2023	2021-23	2023-25	2025-27
Finance Division (020)	1,448,780	2,207,114	3,655,894	4,354,788	4,354,788
Licensing Division (050)	733,345	679,840	1,413,185	167,650	167,650
Enforcement Division (060)	275,254	513,498	788,752	952,976	952,976
Information Technology Division (070)	268,355		268,355		
Total \$	2,725,734	3,400,452	6,126,186	5,475,414	5,475,414

Part IV: Capital Budget Impact

IV. A - Capital Budget Expenditures

NONE

IV. B - Expenditures by Object Or Purpose

NONE

IV. C - Capital Budget Breakout

Identify acquisition and construction costs not reflected elsewhere on the fiscal note and describe potential financing methods

NONE

IV. D - Capital FTE Detail: *List FTEs by classification and corresponding annual compensation. Totals need to agree with total FTEs in Part IVB*

NONE

Part V: New Rule Making Required

Identify provisions of the measure that require the agency to adopt new administrative rules or repeal/revise existing rules.

Sec. 1. (4)(a) Pursuant to rules adopted by the board by January 1, 2022, licensees may make retail sales of marijuana products produced and processed entirely by the craft cannabis producer/processor from the licensed production facility.

1260 HB - Enforcement Field Increment (FI) Calculator

Converted licenses						
	Number of events	Time Factor	Staffing Factor	FI Total	Officer	Consultant
Marijuana Premises Check (Non-Retail)	60	10	1.3	780	257	515
Marijuana Retailer Compliance Check	400	2	2	1600	1600	
License Support and Education (Cannabis)	60	10	1	600		600
Complaint Investigations Marijuana	4	20	1.3	104	104	
Total FI's				3,084	1,961	1,115
Total Field Increments per FTE				4,220	4,220	4,220
FTE's required				0.73	0.46	0.26
Round				0.80	0.50	0.30

Marijuana Premises Check (Non-Retail)	15%
Marijuana Retailer Compliance Check	1
License Support and Education (cannabis)	15%
Complaint Investigations Marijuana	1%

Number of locations 400

1260 HB - Enforcement Field Increment (FI) Calculator Year 2

Converted licenses						
	Number of events	Time Factor	Staffing Factor	FI Total	Officer	Consultant
Marijuana Premises Check (Non-Retail)	120	10	1.3	1560	515	1030
Marijuana Retailer Compliance Check	800	2	2	3200	3200	
License Support and Education (cannabis)	120	10	1	1200		1200
Complaint Investigations Marijuana	8	20	1.3	208	208	
Total FI's				6,168	3,923	2,230
Total Field Increments per FTE				4,220	4,220	4,220
FTE's required				1.46	0.93	0.53
Round				1.50	1.00	0.60

Marijuana Premises Check (Non-Retail)	15%
Marijuana Retailer Compliance Check	1
License Support and Education (cannabis)	15%
Complaint Investigations Marijuana	1%

Number of locations 800

1260 HB - Enforcement Field Increment (FI) Calculator

New Licenses

	Number of events	Time Factor	Staffing Factor	FI Total	Officer	Consultant
Marijuana Premises Check (Non-Retail)	200	10	1.3	2600	858	1716
Marijuana Retailer Compliance Check	200	2	2	800	800	
License Support and Education (cannabis)	50	10	1	500		500
Complaint Investigations Marijuana	2	20	1.3	52	52	
Consultant Visits	20	9	1	180		180
Total FI's				4,132	1,710	2,396
Total Field Increments per FTE				4,220	4,220	4,220
FTE's required				0.98	0.41	0.57
Round				1.00	0.50	0.60

Marijuana Premises Check (Non-Retail)	100%
Marijuana Retailer Compliance Check	1
License Support and Education (cannabis)	25%
Complaint Investigations Marijuana	1%
Consultant Visits	10%

Number of locations	200
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1260 HB - Enforcement Field Increment (FI) Calculator Year 2

	Number of events	Time Factor	Staffing Factor	FI Total	Officer	Consultant
Marijuana Premises Check (Non-Retail)	400	10	1.3	5200	1716	3432
Marijuana Retailer Compliance Check	400	2	2	1600	1600	
License Support and Education (cannabis)	100	10	1	1000		1000
Complaint Investigations Marijuana	4	20	1.3	104	104	
Consultant Visits	40	9	1	360		360
Total FI's				8,264	3,420	4,792
Total Field Increments per FTE				4,220	4,220	4,220
FTE's required				1.96	0.81	1.14
Round				2.00	0.90	1.20

Marijuana Premises Check (Non-Retail)	100%
Marijuana Retailer Compliance Check	1
License Support and Education (cannabis)	25%
Complaint Investigations Marijuana	1%
Consultant Visits	10%

Number of locations	400
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