

# Multiple Agency Fiscal Note Summary

<b>Bill Number:</b> 6505 SB	<b>Title:</b> Marijuana industry/tax prefs
-----------------------------	--

## Estimated Cash Receipts

Agency Name	2013-15		2015-17		2017-19	
	GF- State	Total	GF- State	Total	GF- State	Total
Department of Revenue	2,725,000	2,767,000	5,450,000	5,534,000	5,450,000	5,534,000
Total \$	2,725,000	2,767,000	5,450,000	5,534,000	5,450,000	5,534,000

Local Gov. Courts *						
Loc School dist-SPI						
Local Gov. Other **		735,640		1,484,282		1,485,282
Local Gov. Total		735,640		1,484,282		1,485,282

## Estimated Expenditures

Agency Name	2013-15			2015-17			2017-19		
	FTEs	GF-State	Total	FTEs	GF-State	Total	FTEs	GF-State	Total
Department of Revenue	.0	2,700	2,700	.0	0	0	.0	0	0
Total	0.0	\$2,700	\$2,700	0.0	\$0	\$0	0.0	\$0	\$0

## Estimated Capital Budget Impact

NONE

This bill was identified as a proposal governed by the requirements of RCW 43.135.031 (Initiative 960). A fiscal analysis was prepared to show the projected ten-year cost to tax or fee payers of the proposed taxes or fees. The ten-year projection can be viewed at

<http://www.ofm.wa.gov/tax/default.asp>

<b>Prepared by:</b> Kathy Cody, OFM	<b>Phone:</b> (360) 902-9822	<b>Date Published:</b> Final 2/ 5/2014
-------------------------------------	---------------------------------	---

\* See Office of the Administrator for the Courts judicial fiscal note

\*\* See local government fiscal note

FNPID: 37143

# Department of Revenue Fiscal Note

<b>Bill Number:</b> 6505 SB	<b>Title:</b> Marijuana industry/tax prefs	<b>Agency:</b> 140-Department of Revenue
-----------------------------	--	--

**Part I: Estimates**

**No Fiscal Impact**

**Estimated Cash Receipts to:**

Account	FY 2014	FY 2015	2013-15	2015-17	2017-19
GF-STATE-State 01 - Taxes 01 - Retail Sales Tax		1,945,000	1,945,000	3,890,000	3,890,000
GF-STATE-State 01 - Taxes 05 - Bus and Occup Tax		767,000	767,000	1,534,000	1,534,000
GF-STATE-State 01 - Taxes 35 - Public Utilities Tax		13,000	13,000	26,000	26,000
Waste Reduct/Recycle/Litter Control Account-State 04 - St & Misc Rev 06 - Litter Control Reven		36,000	36,000	72,000	72,000
Multimodal Transportation Account-State 01 - Taxes 01 - Retail Sales Tax		1,000	1,000	2,000	2,000
Parks Renewal and Stewardship Account-State 04 - St & Misc Rev 06 - Litter Control Reven		2,000	2,000	4,000	4,000
Performance Audits of Government Account-State 01 - Taxes 01 - Retail Sales Tax		3,000	3,000	6,000	6,000
<b>Total \$</b>		2,767,000	2,767,000	5,534,000	5,534,000

**Estimated Expenditures from:**

Account	FY 2014	FY 2015	2013-15	2015-17	2017-19
FTE Staff Years	0.0		0.0		
GF-STATE-State 001-1	2,700		2,700		
<b>Total \$</b>	2,700		2,700		

**Estimated Capital Budget Impact:**

NONE

This bill was identified as a proposal governed by the requirements of RCW 43.135.031 (Initiative 960). Therefore, this fiscal analysis includes a projection showing the ten-year cost to tax or fee payers of the proposed taxes or fees.

*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.

Legislative Contact:	Phone:	Date: 01/29/2014
Agency Preparation: Steve Smith	Phone: 360-534-1518	Date: 01/31/2014
Agency Approval: Don Gutmann	Phone: 360-534-1510	Date: 01/31/2014
OFM Review: Kathy Cody	Phone: (360) 902-9822	Date: 01/31/2014

## 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.*

Though it is unlikely that the legislative intent of Washington's tax preferences contemplated legal marijuana markets, certain existing tax preferences could apply to marijuana-related activities legalized under Initiative 502.

This bill renders numerous tax preferences inapplicable to marijuana-related activities. The bill affects tax preferences for the business and occupation tax, sales and use tax, public utility tax, litter tax, leasehold excise tax, and property tax.

### 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.*

#### ASSUMPTIONS

- All sections of this bill that do not have an explicit effective date are assumed to be effective on June 10, 2014. Those sections that are effective on July 1, 2015, and July 1, 2020, are merely replacing identical sections that expire on those dates.
- Ninety-four metric tons of marijuana with a crop value of \$169 million will be grown on 46 acres (2 million square feet, a limit established by the Liquor Control Board). The total retail value will be \$1.4 billion.
- The impacts of this proposal are assumed to be flat, not growing over the next five years, because it's unknown how this market will function over the period and future price movements are unknown.
- The Liquor Control Board has plans to limit production and sales in the early years, but these plans are subject to change.
- Banking and other financial issues have yet to be worked out.
- Since this industry will be so highly regulated, no compliance adjustment was made.

#### DATA SOURCES

- Department of Revenue and other agency sources.
- The 2012 Exemption Study.
- Liquor Control Board data and other marijuana data.

#### REVENUE ESTIMATES

State revenues will increase by \$2.8 million in Fiscal Year 2015.

Local revenues will increase by \$743,000 in Fiscal Year 2015.

#### TOTAL REVENUE IMPACT:

State Government (cash basis, \$000):

FY 2015 -	\$ 2,767
FY 2016 -	\$ 2,767
FY 2017 -	\$ 2,767
FY 2018 -	\$ 2,767
FY 2019 -	\$ 2,767

Local Government, if applicable (cash basis, \$000):

FY 2015 -	\$ 743
FY 2016 -	\$ 750
FY 2017 -	\$ 749

FY 2018 - \$ 750  
FY 2019 - \$ 750

DETAIL OF REVENUE IMPACT FOR PROPERTY TAX BILLS, Calendar Year Basis

State Government, Impact on Revenues (\$000)

CY 2015 - \$ 1  
CY 2016 - \$ 1  
CY 2017 - \$ 1  
CY 2018 - \$ 1  
CY 2019 - \$ 1

State Government, (\$000), Shift of Tax Burden

CY 2015 - \$ 7  
CY 2016 - \$ 13  
CY 2017 - \$ 13  
CY 2018 - \$ 14  
CY 2019 - \$ 14

Local Government, Impact on Revenues (\$000)

CY 2015 - \$ 7  
CY 2016 - \$ 14  
CY 2017 - \$ 13  
CY 2018 - \$ 14  
CY 2019 - \$ 14

Local Government, (\$000), Shift of Tax Burden

CY 2015 - \$ 26  
CY 2016 - \$ 49  
CY 2017 - \$ 49  
CY 2018 - \$ 50  
CY 2019 - \$ 52

**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.*

**ASSUMPTIONS**

This bill affects 2,000 taxpayers.

**FIRST YEAR COSTS**

The Department of Revenue will incur total costs of \$2,700 in Fiscal Year 2014. These costs include:

- Labor Costs – Time and effort equates to 0.03 FTEs.
- Amend four administrative rules.

There are no ongoing costs associated with this bill.

### Part III: Expenditure Detail

#### III. A - Expenditures by Object Or Purpose

	FY 2014	FY 2015	2013-15	2015-17	2017-19
FTE Staff Years	0.0		0.0		
A-Salaries and Wages	1,700		1,700		
B-Employee Benefits	500		500		
E-Goods and Other Services	300		300		
J-Capital Outlays	200		200		
<b>Total \$</b>	<b>\$2,700</b>		<b>\$2,700</b>		

#### III. B - 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 2014	FY 2015	2013-15	2015-17	2017-19
HEARINGS SCHEDULER	32,688	0.0		0.0		
TAX POLICY SP 2	61,628	0.0		0.0		
TAX POLICY SP 3	69,756	0.0		0.0		
WMS BAND 3	88,546	0.0		0.0		
<b>Total FTE's</b>	<b>252,618</b>	<b>0.0</b>		<b>0.0</b>		

### Part IV: Capital Budget Impact

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

NONE

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.*

Should this legislation become law, the Department of Revenue will use the expedited process to amend WAC 458-20-210, titled: "Sales of tangible personal property for farming—Sales of agricultural products by farmers"; WAC 458-20-135, titled: "Extracting natural products"; WAC 458-20-136 01, titled: "Manufacturers and processors for hire—Sales and use tax exemption for machinery and equipment"; and WAC 458-20-244, titled: "Food and food ingredients". Persons affected by this rule-making would include marijuana producers, processors, and retailers.

# LOCAL GOVERNMENT FISCAL NOTE

Department of Community, Trade and Economic Development

<b>Bill Number:</b> 6505 SB	<b>Title:</b> Marijuana industry/tax prefs
-----------------------------	--

**Part I: Jurisdiction**-Location, type or status of political subdivision defines range of fiscal impacts.

**Legislation Impacts:**

- Cities: Increased sales and use and property tax revenue
- Counties: Increased sales and use and property tax revenue
- Special Districts: Increased sales and use and property tax revenue
- Specific jurisdictions only:
- Variance occurs due to:

**Part II: Estimates**

- No fiscal impacts.
- Expenditures represent one-time costs:
- Legislation provides local option:
- Key variables cannot be estimated with certainty at this time:

**Estimated revenue impacts to:**

Jurisdiction	FY 2014	FY 2015	2013-15	2015-17	2017-19
City		244,365	244,365	492,617	492,916
County		249,644	249,644	504,046	504,412
Special District		241,631	241,631	487,619	487,954
<b>TOTAL \$</b>		735,640	735,640	1,484,282	1,485,282
<b>GRAND TOTAL \$</b>					3,705,204

**Estimated expenditure impacts to:**

None

**Part III: Preparation and Approval**

Fiscal Note Analyst: Darleen Muhly	Phone: (360) 725-5030	Date: 02/05/2014
Leg. Committee Contact:	Phone:	Date: 01/29/2014
Agency Approval: Steve Salmi	Phone: (360) 725 5034	Date: 02/05/2014
OFM Review: Kathy Cody	Phone: (360) 902-9822	Date: 02/05/2014

**Part IV: Analysis**

**A. SUMMARY OF BILL**

*Provide a clear, succinct description of the bill with an emphasis on how it impacts local government.*

This bill would exclude marijuana-related activities and equipment from existing agricultural tax preferences. The bill affects tax preferences for the business and occupation tax, sales and use tax, public utility tax, litter tax, leasehold excise tax, and property tax.

**B. SUMMARY OF EXPENDITURE IMPACTS**

*Briefly describe and quantify the expenditure impacts of the legislation on local governments, identifying the expenditure provisions by section number, and when appropriate, the detail of expenditures. Delineate between city, county and special district impacts.*

According to the Washington Association of County Officials, this bill is not expected to impact expenditures for county assessors.

**C. SUMMARY OF REVENUE IMPACTS**

*Briefly describe and quantify the revenue impacts of the legislation on local governments, identifying the revenue provisions by section number, and when appropriate, the detail of revenue sources. Delineate between city, county and special district impacts.*

This bill is estimated to increase local government sales and use tax revenue by \$736,000 annually and increase local government property tax by \$13,000 to 14,000 annually.

**LOCAL GOVERNMENT SALES AND USE TAX IMPACT:**

According to the Department of Revenue (DOR), the proposed legislation would increase total local government sales tax revenue statewide by \$736,000 annually, resulting in an additional \$247,082 for counties, \$242,273 for cities, and \$239,285 for special districts.

**Sales and Use Tax Distribution Methodology:**

The distributions in this note for cities, counties, and special districts are based on DOR data for local sales tax distributions from Calendar Year 2012. Mitigation payments and distributions to hospital benefit zones are not factored into this distribution. This results in a distribution of 33.91 percent to counties, 33.25 percent to cities and 32.84 percent to special districts. The 1 percent DOR administrative fee has also been deducted.

**LOCAL GOVERNMENT PROPERTY TAX IMPACT:**

According to the Department of Revenue fiscal note, this bill would result in the following revenue loss and tax shifts to local governments:

**Local Government Revenue Impact by Fiscal Year (in dollars):**

	COUNTIES	CITIES	SPECIAL DISTRICTS
FY 2015	2,562	2,092	2,346
FY 2016	5,124	4,185	4,692
FY 2017	4,758	3,886	4,357
FY 2018	5,124	4,185	4,692
FY 2019	5,124	4,185	4,692

**Local Government Tax Shift by Calendar Year (in dollars):**

	COUNTIES	CITIES	SPECIAL DISTRICTS
CY 2015	5,282	4,314	16,404
CY 2016	9,955	8,131	30,914
CY 2017	9,955	8,131	30,914
CY 2018	10,158	8,297	31,545
CY 2019	10,564	8,629	32,807

**Tax Shift and Revenue Loss:**

Tax exemptions lower the taxable value against which taxing districts levy their taxes. When exemptions are enacted, taxing districts may compensate for the loss in taxable value by increasing the tax rate for taxpayers who are not eligible for the exemptions.

Consequently, taxpayers who do not benefit from the exemption would pay a higher tax. This higher tax results in a tax shift from the exempt taxpayers to the non-exempt taxpayers. However, when a taxing district is restricted from increasing the tax rate due to a levy limit, the taxing district incurs a revenue loss. Local government revenue losses and tax shifts were computed by taking the DOR fiscal note data and multiplying the result by the property tax distribution for counties, cities and special districts. Property tax distribution among cities, counties and special districts is based on DOR's Property Tax Statistics 2012.

Calendar Year vs. Fiscal Year:

Note that a tax shift is presented by calendar year and a revenue loss is presented by fiscal year. Taxes are assessed and collected by the counties on a calendar-year basis. When a tax shift occurs, it is computed for the calendar year. Because revenue and expenditures are reported on a fiscal year basis, the revenue loss is also for a fiscal year.

SOURCES:

Department of Revenue fiscal note

Department of Revenue Property Tax Statistics 2013

Washington Association of County Officials