

BALLOT PROPOSITION # 203

FISCAL ANALYSIS

Description

Proposition 203, if approved by the voters, would require the Department of Health Services (DHS) to regulate dispensation, prescription, and use of medical marijuana. Under this proposition, dispensaries, patients with debilitating illnesses, and designated caregivers using medical marijuana would have to apply for registration with DHS. The department would administer an electronic registry of dispensary agents, patients and designated caregivers. The department would issue identification cards to these same individuals, while also licensing nonprofit medical marijuana dispensaries. The proposition would permit the department to set licensing fees, but limits the maximum amount that could be assessed for license and renewal fees for dispensary facilities. The initiative does not limit the fee that the department may charge to dispensary agents, patients and designated caregivers.

In addition, Proposition 203 would amend A.R.S. § 43-1201 to include nonprofit medical dispensaries as exempt from state income taxes.

Estimated Impact

State law requires that the Joint Legislative Budget Committee (JLBC) Staff prepare a summary of the fiscal impact of certain ballot measures. Proposition 203 is projected to cost the state Department of Health Services \$600,000 to operate in the first year and \$1.5 million in the second year. Once fully established in the third year, the projected cost is \$3.1 million. Proposition 203 requires this cost to be funded from application and renewal fees, civil penalties and private donations.

DHS estimates that the initiative would cost \$1.2 million in FY 2011, \$1.5 million in FY 2012, and \$4.7 million in FY 2013.

Analysis

Beginning no later than March 2011, DHS would begin to license nonprofit medical marijuana dispensaries and register dispensary agents, patients, and their designated caregivers. Based on data available from other states, Proposition 203 is projected to have a 3 year phase-in period. Prior to 100% funding in FY 2013, program expenditures would be 20% of this level in FY 2011 and 50% in FY 2012.

Currently, 14 states have legalized medical marijuana. Of those states, the Colorado program provides the best combination of parallel legislation, established fees and statewide medical marijuana population statistics for determining the impact of Proposition 203. While Colorado has permitted the use of medical marijuana since FY 2001, the state did not begin regulating dispensaries and dispensary agents until FY 2011.

Colorado medical marijuana registration laws are expected to apply to 58,132 individuals in FY 2011 for a total cost of \$2,661,700, or \$46 per registrant. Proposition 203 is forecasted to apply to 6,600 individuals in Arizona in FY 2011. (*See below for a discussion of the population projection.*) Using Colorado's \$46 per registrant expense, Arizona's program would cost approximately \$300,000 in the first year; however, there are likely to be one-time start up costs, including information technology expenses. These one-time start-up costs are estimated to add another \$300,000 in expenses for a total first year cost of \$600,000.

In FY 2012, 33,000 individuals are forecasted to be registered in the program, which would cost \$1.5 million at \$46 per registrant. In FY 2013, it is estimated that 66,000 individuals will register at a cost of \$3.1 million. Administrative provisions for the program would include staff, development and maintenance of the electronic registry, and capital expenses to produce registry cards.

Proposition 203 requires the program's operating cost to be funded from application and renewal fees, civil penalties and private donations deposited into the Medical Marijuana Fund. To evaluate the fee levels necessary to fund the program, JLBC Staff has created a sample scenario that assumes that fees will be set at the maximum level set in the ballot proposition. Proposition 203, however, does not set maximum amounts for all fees. In those circumstances, the sample scenario uses the Colorado fee levels.

Under these assumptions, the sample scenario revenues would be sufficient to fund program expenses. The sample scenario generated revenues of \$660,000 in FY 2011, \$3.3 million in FY 2012, and \$6.1 million in FY 2013. In FY 2012 and FY 2013, revenues are estimated to be twice the level of estimated expenditures. As a result, DHS could either reduce the sample scenario level of fees and/or increase the estimated expenditures.

In terms of revenues, the Medical Marijuana Fund would receive three primary fees: 1) dispensary licensing fees; 2) dispensary agent registration fees; and 3) patient and primary caregiver registration fees.

In addition to fees, the department may also accept donations and impose civil penalties against individuals regulated by this initiative, both of which will be deposited into the Medical Marijuana Fund. In its sample scenario, the JLBC Staff has not attempted to estimate the level of revenues from donations or civil penalties.

Dispensary licensing fees are projected to generate \$60,000 in 2011, \$252,000 in FY 2012, and \$360,000 in FY 2013. The initiative limits dispensary facility fees to a maximum of \$5,000 for the initial application and \$1,000 per annual renewal. This analysis assumes fees will be set at this level. Proposition 203 permits no more than 1 nonprofit medical marijuana dispensary for every 10 in-state pharmacies that are registered with the Arizona State Board of Pharmacy, with the exception that DHS may license dispensaries in excess of that limit to ensure that there is at least 1 medical marijuana dispensary in each county. There are currently 1,200 in-state pharmacies that are registered with the Board, which would yield a maximum of 120 dispensaries statewide. Due to the program phase-in, 12 dispensaries are forecasted to be available in FY 2011, 60 in FY 2012, and the maximum 120 in FY 2013.

Dispensary agent registration fees are projected to generate \$9,000 in FY 2011, \$45,000 in FY 2012, and \$90,000 in FY 2013. Based on dispensary employment estimates and fee levels from Colorado, each of the dispensaries is projected to have a staff of approximately 6 agents at a registration cost of \$125 per person. Under this assumption, 72 dispensary agents will register in FY 2011, 360 in FY 2012, and 720 in FY 2013 when the program is expected to be fully implemented. The initiative does not limit the amount that the department may charge for dispensary agent registration fees.

Patient and designated caregiver registration fees are projected to generate a total of \$594,000 in FY 2011, \$3.0 million in FY 2012, and \$5.7 million in FY 2013. These totals presume that the department would charge patient and caregiver fees of \$90 per person per year for registrations and renewals, which is the current fee for the same population in Colorado. The initiative does not limit the amount that the department may charge for patient and designated caregiver registration fees.

Assuming registration statistics similar to those of Colorado, the total patient population is forecasted to be 0.6% of Arizona's population, or 39,600 people when the program is fully implemented in FY 2013. In addition, 67% of Colorado patients require a designated caregiver. At that rate, there would be 26,400 licensed designated caregivers in Arizona. With 39,600 patients and 26,400 designated caregivers, the projected total licensed population is 66,000. During the phase-in, 3,960 patients and 2,640 designated caregivers are forecasted to be registered in FY 2011. In FY 2012, a total of 19,800 patients and 13,200 designated caregivers are forecasted to be registered for a total of 33,000.

<u>Fee Type</u>	Projected Fee Schedule				
	<u>Initial Fee</u>	<u>Renewal Fee</u>	<u>FY 2011 Revenues</u>	<u>FY 2012 Revenues</u>	<u>FY 2013 Revenues</u>
Dispensary	\$5,000	\$1,000	\$ 60,000	\$ 252,000	\$ 360,000
Agent	125	125	9,000	45,000	90,000
Patient/Designated Caregiver	90	90	<u>594,000</u>	<u>2,970,000</u>	<u>5,676,000</u>
Total Revenues			\$663,000	\$3,267,000	\$6,126,000

DHS has projected a similar total population by FY 2013; however, the department believes that there will be a higher cost per person than what is assumed in this analysis.

Local Government Impact

None