OFFICE OF FISCAL ANALYSIS
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sHB-6377
AN ACT CONCERNING LABOR PEACE AGREEMENTS AND A MODERN AND EQUITABLE CANNABIS WORKFORCE.

OFA Fiscal Note

State Impact:

Agency Affected	Fund-Effect	FY 22 $	FY 23 $
Department of Revenue Services	Cannabis Control Commission Operational Trust Fund - Revenue Gain	See Below	19.6 million
Department of Economic & Community Development	GF - Appropriation	5 million	5 million
Department of Emergency Services and Public Protection; Criminal Justice, Div.; Judicial Dept.	GF - Cost	Up to 866,655	Up to 892,655
Department of Revenue Services	GF - Cost	636,189	490,547
State Comptroller - Fringe Benefits[1]	GF - Cost	Up to 455,475	Up to 571,262
Department of Motor Vehicles	TF - Cost	625,639	529,446
State Comptroller - Fringe Benefits	GF&TF - Cost	210,563	218,661
Attorney General	GF - Potential Cost	82,670	85,150
State Comptroller - Fringe Benefits	GF - Potential Cost	33,316	35,167
UConn	Other - Potential Revenue Gain	At least 150,000	See Below
Education, Dept.	GF - Cost	Up to 10,000	None
Department of Emergency Services and Public Protection; Legislative Mgmt.; Department of	Various - Potential Cost	See Below	See Below

[1]The fringe benefit costs for most state employees are budgeted centrally in accounts administered by the Comptroller. The estimated active employee fringe benefit cost associated with most personnel changes is 41.3% of payroll in FY 22 and FY 23.

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Energy and Environmental Protection; Higher Education Constituent Units; Department of Transportation			
Cannabis Control Commission	Cannabis Control Commission Operational Trust Fund - See Below	See Below	See Below
Judicial Dept. (Probation); Correction, Dept.	GF - See Below	See Below	See Below
Resources of the General Fund	GF - See Below	See Below	See Below
Resources of the Special Transportation Fund	TF - See Below	See Below	See Below

Note: GF=General Fund; Various=Various; TF=Transportation Fund; GF&TF=General Fund & Transportation Fund

Municipal Impact:

Municipalities	Effect	FY 22 $	FY 23 $
Various Municipalities	Potential Revenue Gain	See Below	See Below
Various Municipalities	STATE MANDATE[2] - Potential Cost	See Below	See Below

Explanation

The bill, which makes numerous changes to employment, licensing, consumer, economic development, tax, criminal justice, and traffic enforcement laws to establish a legal recreational cannabis consumer and business sector, results in the following fiscal impacts:

Section 2 appropriates $5 million from the General Fund to the Department of Economic and Community Development for each fiscal year from FY 22 through FY 26 for workforce training, small business support, and facilities rehabilitation grants in 12 specific towns. This results in a potential revenue gain to municipalities to the extent that they are recipients of the grant. From FY 22 to FY 26, any revenue gain

[2] State mandate is defined in Sec. 2-32b(2) of the Connecticut General Statutes, "state mandate" means any state initiated constitutional, statutory or executive action that requires a local government to establish, expand or modify its activities in such a way as to necessitate additional expenditures from local revenues.

as a result of this section is limited to the cities of Hartford, New Haven, Bridgeport, Waterbury, New London, Windham, New Britain, Bloomfield, Norwalk, Torrington, Ansonia, and Derby.

Section 3 establishes certain employment protections and allows aggrieved parties to bring an action before Superior Court over alleged violations, which does not result in any fiscal impact to the Judicial Department. The court system disposes of over 400,000 cases annually and the number of cases is not anticipated to be great enough to require additional resources.

Section 7 establishes a seven-member cannabis equity task force to make recommendations that are relevant to the establishment and regulation of cannabis cultivation, manufacture, and sale in the state. The bill allocates the cannabis equity task force $500,000 from the resources of the General Fund. The task force must contract with researchers and research organizations and may hire staff in order to carry out its duties. Any moneys remaining after the completion of duties shall be retained in trust and remitted to the Cannabis Control Commission to support the commission's first year of operations.

Sections 8, 9, and 12 creates a Cannabis Control Commission as an independent regulatory agency, composed of five commissioners. Two commissioners shall be appointed by the Black and Puerto Rican Caucus. The remaining members are the commissioners of labor, consumer protection, and economic and community development. Each commissioner appointed by the Black and Puerto Rican Caucus shall receive a base salary of not less than $100,000 annually.

Sections 18 and 19 require the Cannabis Control Commission to establish an Office of Justice Reinvestment (OJF). The commission can hire staff and authorize the OJR to hire staff to support their regulatory operations. The bill establishes a Cannabis Control Commission Operational Trust Fund (CCCOTF) containing all licensing and other regulatory fees and all cannabis sales tax surcharges as established under the bill. This fund shall pay for all the expenses of the commission and the OJR.

Sections 14, 28, 39-45, 48, and 50 make various traffic stop and law enforcement procedures and policies related to the detection and enforcement of cannabis by law enforcement personnel, resulting in no fiscal impact to the state or municipalities.

Section 21 establishes a 10% sales tax surcharge, in addition to the general sales tax, on all cannabis and cannabis product sales. This results in an estimated revenue gain of $32.1 million in FY 23 and $61.2 million in FY 24; the annual revenue gain is expected to grow to $99.4 million by FY 27.[3]

The bill specifies that all cannabis sales tax surcharges be deposited in the CCCOTF established under the bill, resulting in a revenue gain of $19.6 million in FY 23 and $37.4 million in FY 24 to that fund. The remaining $12.5 million in FY 23 and $23.8 million would be deposited in the General and Special Transportation funds.[4]

Section 21 also establishes an additional restorative justice tax on cannabis businesses equal to (1) 2% on their annual gross revenue between $1 million and $10 million and (2) 10% on their annual gross revenue over $10 million. This results in a General Fund revenue gain of less than $19.6 million in FY 23 and less than $37.4 million in FY 24; the annual revenue is expected to grow to less than $60.8 million by FY 27.[5]

Additionally, **section 21** results in administrative costs to the Department of Revenue Services estimated at $733,735 in FY 22 and $693,143 in FY 23. This includes salary and fringe benefit costs for two Revenue Agents and five Revenue Examiners, as well as a one-time

[3] All revenue estimates assume that the first year of cannabis sales occur in FY 23; to the extent that sales occur earlier there is a potential revenue gain as early as FY 22.
[4] Under current law, a portion of the 6.35% sales tax rate is transferred to the Special Transportation Fund (STF). Any measure increasing overall collections of the 6.35% sales tax will positively impact the STF in addition to the General Fund.
[5] These estimates assume an effective tax rate of 10% on all cannabis business gross revenues; the actual revenue gain is dependent on the number of cannabis businesses established and how cannabis gross revenues break down on an individual taxpayer basis between the marginal tax thresholds established under the bill.

set-up and information technology programming cost estimated at $400,000 in FY 22 only.

Finally, **section 21** also allows municipalities to implement a five percent tax on the sale of cannabis and cannabis products. Any revenue gain to a municipality would depend on the volume of sales in such a municipality.

Section 22 specifies that municipalities may not unconditionally prohibit a cannabis business from operating in town. This has no fiscal impact.

Section 24 prohibits certain municipal officials and members of municipal police departments from having any managerial or financial interest in a cannabis business. This has no fiscal impact.

Section 25 prohibits municipalities from conditioning any official action or accepting any donation from a cannabis establishment that seeks a license to operate in such a municipality. This has no fiscal impact.

Section 26 conditions a municipality's eligibility for receiving cannabis workforce and development grants or loans on such municipality's adoption of the findings of fact made by the cannabis equity task force established under the bill. This has no fiscal impact.

Section 27, regarding a research partnership, results in a potential cost to the Cannabis Control Commission of approximately $150,000 in FY 22 and an equivalent potential revenue gain to the University of Connecticut, with the potential for this fiscal impact to grow in FY 22 and continue into FY 23. The bill requires the commission to consult with the University of Connecticut regarding entering into a research partnership in support of equity in the cannabis business sector. The commission is further directed to attempt to partner with UConn for up to six months and as needed thereafter. If the commission executes an agreement with UConn that extends beyond six months, the fiscal impact may increase in FY 22 and extend into FY 23. The estimated partnership cost to the commission and revenue to UConn is based on a six-month partnership involving data analysis, consultation with national experts, and training.

Section 29 results in a one-time cost of up to $10,000 in FY 22 to the State Department of Education to amend state data collection and reporting systems to add and process separate cannabis-related substance types.

Sections 30 and 31 are not anticipated to result in a fiscal impact to the Department of Housing (DOH) as the provisions of **section 31** (and not **section 30**) are understood to apply to the federally assisted housing programs the DOH administers.

Section 31 requires the Office of the Attorney General (OAG) to conduct periodic racial impact reviews of denials and evictions for cannabis-related reasons once every two years. The bill stipulates that if the OAG identifies discrimination patterns in federally assisted housing based on lawful cannabis activity, the Attorney General would take remedial and corrective measures including injunctive relief and imposing civil penalties not to exceed $100,000 for each instance of a policy that creates a disparate racial impact in the housing matters.

This requirement may result in costs of $82,670 in FY 22 and $85,150 in FY 23 to hire an additional Assistant Attorney General to conduct the mandatory reviews and bring the cases, if necessary, under the new program. The requirement for additional racial impact reviews could also result in a cost of $33,316 in FY 22 and $35,167 in FY 23 for fringe benefits associated with the new position to the extent the number of racial impact reviews is significant.

Section 31 is also expected to result in a revenue gain to the General Fund associated with the civil penalty provision related to racial impact discrimination in housing, the extent to which depends on the number of violations that occur.

Sections 33 and 34 require the erasure of certain police and court records resulting in a cost to the state of up to $1.2 million in FY 22 and $1.3 million in FY 23 (includes salary and fringe benefits). To meet the requirements of the bill the Department of Emergency Services and Public Protection, Division of Criminal Justice, and the Judicial Department will have to hire up to 5 durational administrative assistants each. The final cost will be dependent on how many administrative assistants each agency hires and how long they are needed to erase the records specified under the bill.

These sections also result in a potential cost to municipalities to the extent additional staff are hired, or overtime is incurred, due to the requirement that certain electronic records be deleted. It is anticipated potential costs will be isolated to municipalities with greater volumes of criminal records.

Sections 35, 51-53, and 56 make various conforming changes to consumer protection statutes, resulting in no fiscal impact.

Section 36, 37, 49, 55, 57, 58, and 59 create new violations for cannabis and results in a marginal cost for violations and revenue from fines. On average, the marginal cost to the state for incarcerating an offender for the year is $2,200[6] while the average marginal cost for supervision in the community is less than $700[7] each year.

Section 38 requires the Police Officer Standards and Training Council (POST) to determine how many drug recognition experts (DRE) are needed for each law enforcement unit resulting in a potential cost to various agencies[8] and municipalities. If agencies with

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[6] Inmate marginal cost is based on increased consumables (e.g. food, clothing, water, sewage, living supplies, etc.). This does not include a change in staffing costs or utility expenses because these would only be realized if a unit or facility opened.

[7] Probation marginal cost is based on services provided by private providers and only includes costs that increase with each additional participant. This does not include a cost for additional supervision by a probation officer unless a new offense is anticipated to result in enough additional offenders to require additional probation officers.

[8] Agencies with law enforcement personnel include Department Emergency Services and Public Protection, Office of Legislative Management, Department of Energy and

law enforcement units and municipalities do not meet the minimum standard developed by POST they will need to train additional DREs resulting in a potential cost.

Section 38 also requires each police officer who has not been recertified for the first time after the initial certification to be trained in advanced roadside impaired driving enforcement (ARIDE) resulting in a cost to various agencies and municipalities for the training. For example, the cost for the Department of Transportation to hold additional classes is estimated at approximately $50,000 annually.

Section 40 expands the administrative license suspension process to drug-impaired drivers and results in a cost to the Department of Motor Vehicles of approximately $720,400 in FY 22 and $748,107 in FY 23 for salary and fringe benefit costs for seven new positions, and a one-time cost in FY 22 of $115,802 for information technology and ancillary costs.

Sections 46 and 47 modify allowable possession of cannabis and results in a marginal savings due to decreased violations and revenue loss from less fines collected.

The Out Years

The annualized ongoing fiscal impact identified above would continue into the future subject to: 1) inflation, 2) the length of time required to erase records, and 3) the number of racial impact reviews performed by the OAG and the number of violations that occur.

Environmental Protections, the Department of Transportation and the Higher Education Constituent Units.