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Fiscal Note

2021-2022 Legislative Session

HF813 - 0 - Medical Cannabis Program Modified

Chief Author: **Heather Edelson**
 Committee: **Health Finance and Policy**
 Date Completed: **2/25/2021 10:59:55 AM**
 Agency: **Health Dept**

State Fiscal Impact	Yes	No
Expenditures	X	
Fee/Departmental Earnings	X	
Tax Revenue		X
Information Technology	X	
Local Fiscal Impact		X

This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative. Reductions shown in the parentheses.

State Cost (Savings)	Biennium			Biennium		
	Dollars in Thousands	FY2021	FY2022	FY2023	FY2024	FY2025
State Government Special Rev	-	2,668	1,444	1,444	1,444	1,444
Total	-	2,668	1,444	1,444	1,444	1,444
Biennial Total			4,112			2,888

Full Time Equivalent Positions (FTE)	Biennium			Biennium	
	FY2021	FY2022	FY2023	FY2024	FY2025
State Government Special Rev	-	11	11	11	11
Total	-	11	11	11	11

LBO Analyst's Comment

I have reviewed this fiscal note for reasonableness of content and consistency with the LBO's Uniform Standards and Procedures.

LBO Signature: Carlos Guereca **Date:** 2/25/2021 10:59:55 AM
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State Cost (Savings) Calculation Details

This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative. Reductions are shown in parentheses.

*Transfers In/Out and Absorbed Costs are only displayed when reported.

State Cost (Savings) = 1-2 Dollars in Thousands	Biennium			Biennium	
	FY2021	FY2022	FY2023	FY2024	FY2025
State Government Special Rev	-	2,668	1,444	1,444	1,444
Total	-	2,668	1,444	1,444	1,444
Biennial Total			4,112		2,888
1 - Expenditures, Absorbed Costs*, Transfers Out*					
State Government Special Rev	-	2,668	1,444	1,444	1,444
Total	-	2,668	1,444	1,444	1,444
Biennial Total			4,112		2,888
2 - Revenues, Transfers In*					
State Government Special Rev	-	-	-	-	-
Total	-	-	-	-	-
Biennial Total			-		-

Bill Description

This bill would add “combustion with use of dried raw cannabis” as an approved delivery method of medical cannabis. It also allows medical cannabis manufacturers to distribute dried raw cannabis only for registered patients age 21 or older.

Technical comment:

Current statute limits the number of medical cannabis manufacturers to two and the number of patient dispensaries to 16. Additionally, each manufacturer is limited to one location to grow and extract product. If patient volume were to triple, there are significant concerns about whether the two manufacturers and patient centers could serve this increase in patients.

Assumptions

We assume the legislation is effective August 1, 2021.

When the Pennsylvania medical cannabis program added raw cannabis to its program, it saw its patient volume almost quadruple. The cost of producing raw cannabis or “leaf” is significantly lower than producing medicine in the form of extracted oil. Medical cannabis manufacturers in Minnesota sell cannabis medicine at prices related to the costs of production. The production of raw cannabis as medicine may lower costs for patients at the point of sale, which could have the effect of increasing patient enrollment in Minnesota.

Assuming Minnesota’s medical cannabis program would see a similar increase in patients as other states, we estimate a tripling of patients within one year. The patient population would increase by 52,000, from 26,000 in fiscal year 2021 to 78,000 in fiscal year 2022 and each year thereafter. The cost estimates for MDH’s medical cannabis program are related to serving this increased patient load.

When patients enroll in the program, they pay an enrollment fee. Our current patient registry is comprised of approximately half paying the \$200 enrollment fee and half paying the discounted enrollment fee of \$50. We estimate additional enrollees will have the same ratio. This fee is usually paid by credit card. MDH currently covers the US Bank card processing fees for patients. The office would expect to pay an additional \$104,000 annually to cover the credit card fees additional enrollees.

As of the beginning of 2021, MDH employs 4.5 full-time equivalent (FTE) staff as call center staff to register and renew patients in the program and manage the program registry. We anticipate needing to increase call center staff by adding 9.0 new FTE staff for a total of 13.5 FTE staff in the call center in fiscal year 2022 and ongoing. Additionally, MDH employs two enforcement and inspection staff. We anticipate needing two additional enforcement and inspection FTE staff to handle increase monitoring of medical cannabis production, including inventory of manufacturers, for a total of 4.0 FTE staff in fiscal year 2022 and ongoing. The inspection and enforcement staff would require in-state travel expenses to travel to the 16 cannabis dispensaries across the state.

In addition to staffing costs, MDH would incur information technology costs to update the patient registry to add raw cannabis to the list of available medicines/products. This would be a one-time cost of \$5,700 in fiscal year 2022.

The current Minnesota medical cannabis program does not have a seed-to-sale software system to track and trace cannabis plants, medicine inventory, and inspections. As the volume of product increases and the addition of plant material is added, the risk of product diversion increases. To manage inventory and track product, inspections in real time are necessary. Currently, inventory is spot checked by MDH inspectors by requesting manifests from manufacturers. A software system would be critical to allow MDH to see all inventory and reduce risk of running out of product and reduce risk of diversion. The initial cost of such a software system would be \$1,200,000 to purchase and customize the system, and the ongoing maintenance of the system would be approximately \$200,000 annually. These costs are estimated based on the experience of other state medical cannabis programs and direct estimates from software vendors procured by MN.IT.

Expenditure and/or Revenue Formula

Expenditure

Expenditure (Actual Dollars)	Amount	FY 2022	FY 2023	FY 2024	FY 2025
Salary & Fringe:		FTE	FTE	FTE	FTE
Planner Principal State	105,274	2.00	2.00	2.00	2.00
Customer Services Specialist	69,529	9.00	9.00	9.00	9.00
	FTE	11.00	11.00	11.00	11.00
	Subtotal	836,309	836,309	836,309	836,309
Information Technology:					
Computing & IT support per FTE	2,712	29,832	29,832	29,832	29,832
Adding "raw cannabis" to registry		5,700			
Seed to Sale software system		1,200,000	200,000	200,000	200,000
	Subtotal	1,235,532	229,832	229,832	229,832
Other Operating Costs:					
Materials, supplies & training per FTE	600	6,600	6,600	6,600	6,600
Travel for inspection staff	5,000	10,000	10,000	10,000	10,000
Credit card fees	104,000	104,000	104,000	104,000	104,000
	Subtotal	120,600	120,600	120,600	120,600
Grants, Aids & Subsidies:					
	Subtotal	0	0	0	0
Indirect (21.7% Eligible Costs)	Subtotal	475,760	257,523	257,523	257,523
Expenditure	Total	2,668,201	1,444,264	1,444,264	1,444,264
Fiscal Tracking (Dollars in Thousands)	BACT	FY 2022	FY 2023	FY 2024	FY 2025
Health Improvement	1	2,668	1,444	1,444	1,444
Administration		2,668	1,444	1,444	1,444
Grants		0	0	0	0

Revenue

Revenue (Actual Dollars)		FY 2022	FY 2023	FY 2024	FY 2025
Fee Description:	Amount	Units	Units	Units	Units
Enrollment Fee	200.00	26,000	26,000	26,000	26,000
Reduced Enrollment Fee	50.00	26,000	26,000	26,000	26,000
	Total	6,500,000	6,500,000	6,500,000	6,500,000
Fiscal Tracking (Dollars in Thousands)		FY 2022	FY 2023	FY 2024	FY 2025
Impact:					
Expenditure		2,668	1,444	1,444	1,444
Revenue		6,500	6,500	6,500	6,500
Annual Cost (Savings)		(3,832)	(5,056)	(5,056)	(5,056)
Cumulative Cost (Savings)		(3,832)	(8,888)	(13,944)	(19,000)

Long-Term Fiscal Considerations

Local Fiscal Impact

References/Sources

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