

From: Morgan, Candace [Candace.Morgan@vermont.gov]
Sent: Thursday, February 04, 2016 9:34 AM
To: Pallito, Andy; Pepper, James
CC: Mousley, Gregg; Sameroff, Rebecca; Peterson, Mary
Subject: RE: Tax budget for Cannabis
Attachments: Cannabis Administrative Budget (v3).xlsx

Andy and Pepper,

Attached is our draft budget for recreational cannabis implementation. It is broken out into the FY in which we would need the appropriation. As Mary mentioned in her initial email, we are assuming at least 30% cash for the first year (which is consistent with the experience in other states).

Let us know if you have any questions!
Candace

From: Pallito, Andy
Sent: Thursday, February 04, 2016 7:58 AM
To: Peterson, Mary <Mary.Peterson@vermont.gov>; Pepper, James <James.Pepper@vermont.gov>
Cc: Morgan, Candace <Candace.Morgan@vermont.gov>; Mousley, Gregg <Gregg.Mousley@vermont.gov>; Sameroff, Rebecca <Rebecca.Sameroff@vermont.gov>
Subject: RE: Tax budget for Cannabis

Please send us whatever you have on this issue.

From: Peterson, Mary
Sent: Thursday, February 04, 2016 6:52 AM
To: Pallito, Andy <Andy.Pallito@vermont.gov>; Pepper, James <James.Pepper@vermont.gov>
Cc: Morgan, Candace <Candace.Morgan@vermont.gov>; Mousley, Gregg <Gregg.Mousley@vermont.gov>; Sameroff, Rebecca <Rebecca.Sameroff@vermont.gov>
Subject: Tax budget for Cannabis

Hi Andy & Pepper:

We were taking a hard look at a budget for Tax to collect the cannabis tax, I understand that you have a meeting with Steve Klein this morning.

Here is our quandry at Tax, which I touched on at the meeting yesterday. Despite Commissioner Donegan's encouragement that there will be full banking available, it would seem prudent for Tax to plan for the current experience of the other states that we will see at least 1/4 of collections in cash. That does present unique (expensive) problems for us to plan around. Basically, where we were landing yesterday was, cash management aside, somewhat higher costs of administration because of the unique legal and audit issues. And then cash management adds a chunk - we would like to do a bit more investigation to see what is reasonable.

Happy to give you our very preliminary worksheet and discuss further.

Mary

Mary Peterson
Commissioner
Vermont Department of Taxes
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	FY17	FY18	FY19		Notes
Computer System					
Software	\$ 750,000	\$ 750,000			CO's FAST module cost \$1.4M; includes interface to enforcement software
Implementation Consulting	\$ 10,000				costs for research, requirements development, or other research expenses
Vender Maintenance and Support		\$ 5,000	\$ 5,000		Ongoing M&S
Total	\$ 760,000	\$ 755,000	\$ 5,000		
Staffing Costs					
Business Analyst/IC	\$ 80,000	\$ 80,000	\$ 80,000	1 staff	lead SME during project development
Policy Analyst	\$ 80,000	\$ 80,000	\$ 80,000	1 staff	legal support
Tax Examiners		\$ 160,000	\$ 160,000	2 staff	call center and front end processing
Discovery		\$ 40,000	\$ 80,000	1 staff	data management for enforcement activities
Audit			\$ 80,000	1 staff	Audit activities
Collections			\$ 80,000	1 staff	
Training		\$ 10,000	\$ 2,000		
Total	\$ 160,000	\$ 370,000	\$ 562,000	8 staff	
Cash Collection Costs					
Vault/safe		\$ 75,000	\$ 5,000		WA costs = \$63k
Security/construction enhancements		\$ 550,000	\$ 100,000		WA costs = \$800k;
Cash equipment		\$ 50,000	\$ 5,000		WA costs = \$50k
2 internal staff Cash Mngmt		\$ 80,000	\$ 80,000	2 part time staff	needed Jul 2017 for training, bonding.
Total	\$ -	\$ 755,000	\$ 190,000	2 cash mngmt staff	
Services					
Armored Car Services		\$ 30,000	\$ 60,000		CO costs = \$60k
Security Guards		\$ 60,000	\$ 60,000		
Total	\$ -	\$ 90,000	\$ 120,000		
Total	920,000	1,970,000	877,000	10 staff	

Assumptions

- Enforcement Structure Similar to CO's with seed to sale tracking
- Ad Valorem separate excise tax and sales tax at the point of retail sale
- At least 30% cash collection in first year
- 1 Tax Collection Point with Employees Present
- 5 days a month for cash collection w/ appointments

S. 241 - Number of Filers

- Max number of cultivator licenses prior to July 1, 2018 = 20
- Max number of retail licenses prior to July 1, 2018 = 40
- Max numbers after July 1, 2018 - up to Public Safety

Revenue Estimates - 25% Excise Tax			
Separate Excise Tax Totals	Low	Middle	High
VT Resident Excise Tax Revenues	11,196,063	13,672,358	16,598,958
VT Resident Sales Tax Revenues	2,687,055	3,281,366	3,983,750
Traveler Excise Tax Revenues	2,071,644	2,969,038	3,987,774
Traveler Sales Tax Revenues	497,194	712,569	957,066
Total Revenue Estimate	16,451,956	20,635,330	25,527,548
Revenue Estimates - 12% Excise Tax			
Separate Excise Tax Totals	Low	Middle	High
VT Resident Excise Tax Revenues	5,374,110	6,562,732	7,967,500
VT Resident Sales Tax Revenues	2,687,055	3,281,366	3,983,750
Traveler Excise Tax Revenues	994,389	1,425,138	1,914,132
Traveler Sales Tax Revenues	497,194	712,569	957,066
Total Revenue Estimate	9,552,749	11,981,805	14,822,447

Cash Inflow Estimates**25% Excise Tax**

% Cash	Annual Low	Annual High
0.75	12,338,967	19,145,661
0.4	6,580,783	10,211,019
0.3	4,935,587	7,658,264

12% Excise Tax

% Cash	Annual Low	Annual High
0.75	7,164,562	11,116,835
0.4	3,821,100	5,928,979
0.3	2,865,825	4,446,734

**Cash estimates based solely on sales and separate excise taxes. Cash from this industry could also come from BIT, CIT, and PIT.*