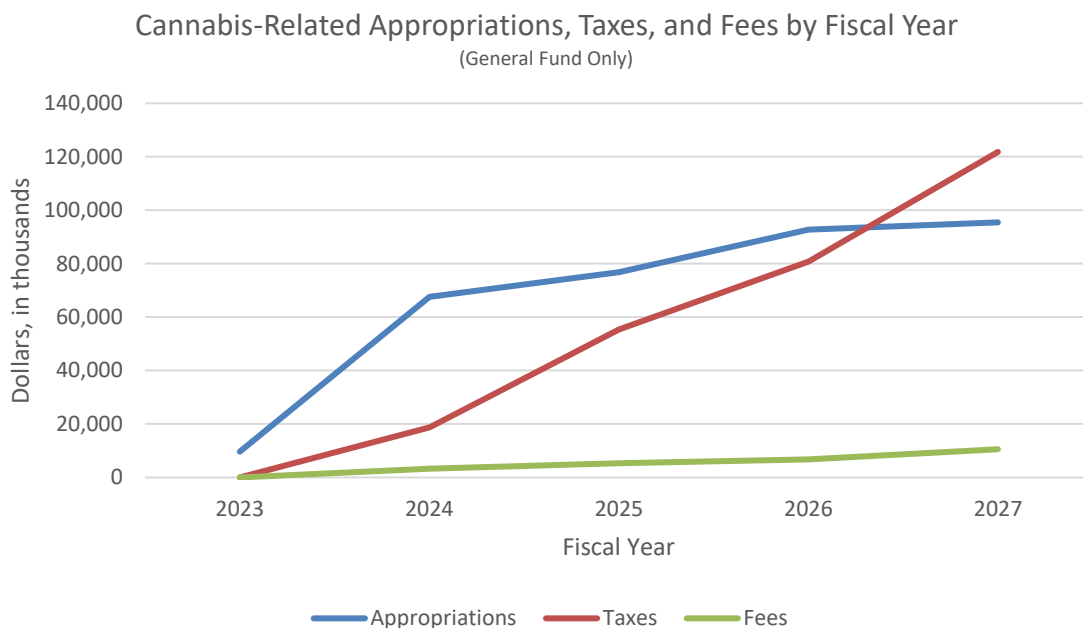




## ADULT-USE CANNABIS LEGALIZATION

**Date:** May 10, 2024

Laws 2023, Chapter 63, provided for the legalization and regulation of cannabis for adult use, created a process for the expungement and resentencing of certain convictions, and established several grant programs. While the enacted law contained wide-ranging policy changes, this fiscal issue brief will focus only on the fiscal aspects of the legislation, including appropriations, taxes, and fees. The complete tracking spreadsheet for Chapter 63, as enacted, is available [here](#). As enacted, the changes in Chapter 63 are a net loss to the General Fund in fiscal years (FY) 2024-25 of \$70.3 million, with \$144.4 million in net expenditures and \$74.1 million in net revenues. The enacted changes provide a net gain to the General Fund in FY 2026-27 of \$24.3 million, with \$188.2 million in net expenditures and \$212.5 million in net revenues.



### Appropriations

Chapter 63 established the Office of Cannabis Management (OCM) as the agency primarily responsible for the regulation of legal cannabis. \$37 million was appropriated for the FY 2024-25 biennium for OCM to approve cannabis-related products, contract with a vendor to create a statewide monitoring system to track all cannabis-related products from seed or immature plant to disposal or sale, license cannabis-related businesses, conduct inspections, and conduct rulemaking. Chapter 63 also appropriated \$3 million to the Department of Agriculture (MDA) in FY 2023 to facilitate the transition of duties related to the regulation of cannabis from MDA to OCM. In addition to these duties, OCM will administer three new grant programs. FY 2024-25 appropriations for these programs are as follows:

- \$11 million for substance use treatment, recovery, and prevention grants;
- \$2 million for the CanGrow revolving loan program for eligible organizations to help farmers navigate the regulatory structure of the legal cannabis industry and for nonprofit corporations to make loans to farmers for expansion into the legal cannabis industry; and
- \$1 million for the CanRenew program to make grants to organizations for community development in social equity communities.

Chapter 63 also created the Cannabis Expungement Board, which will review criminal records to determine whether individuals should have certain cannabis-related convictions expunged or should be resentenced for lesser crimes. Chapter 63 appropriated \$11.2 million in FY 2024-25 to the Cannabis Expungement Board for this work.

The Department of Employment and Economic Development will administer three new cannabis-related grant programs to facilitate the growth of the legal cannabis industry. FY 2024-25 appropriations for these programs included:

- \$4 million for CanTrain grants to eligible organizations to train people for work in the legal cannabis industry and to eligible individuals to acquire such training;
- \$2 million for CanStartup grants to nonprofit corporations to make loans to new cannabis microbusinesses; and
- \$6 million for CanNavigate grants to eligible organizations to help individuals navigate the regulatory structure of the legal cannabis industry.

Chapter 63 appropriated \$4.8 million to the Department of Health for certain administrative duties, including data collection and reporting requirements, temporary regulation of edible products extracted from hemp, and testing of edible cannabinoid products. The bill also includes grant money in FY 2024-25 for education for pregnant or breastfeeding individuals (\$2 million), youth education (\$5 million), local and tribal health departments (\$10 million), and poison control (\$1.7 million). The enacted bill provided appropriations for several divisions of the Department of Public Safety for their new duties. These included:

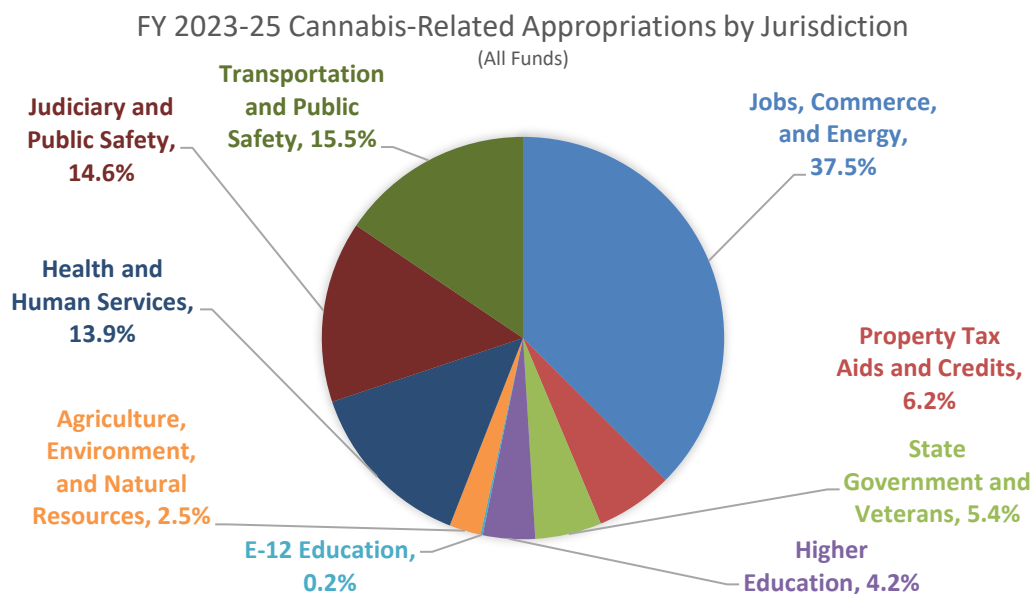
- \$17.6 million for the Office of Traffic Safety for drug recognition training and to implement a roadside testing pilot project;
- \$10.3 million for the Bureau of Criminal Apprehension for forensic science services, the investigation of diversion crimes, and to provide records of convictions involving possession of cannabis for possible expungement or resentencing;
- \$8.4 million for the State Patrol to add additional specialist troopers and replace drug detection canines;
- \$760,000 for Administration to implement a public information campaign relating to automatic expungement of cannabis-related crimes; and
- \$20,000 for the Office of Justice Programs to produce a High Intensity Drug Trafficking Area report.

Smaller appropriations to agencies in the FY 2024-25 biennium for their part in regulating legal cannabis or making cannabis-related grants included:

- \$822,000 to MDA for food safety and pesticide enforcement;
- \$716,000 to the Attorney General for costs related to cannabis conviction expungement;
- \$1.6 million to the Department of Commerce (for energy standards and staffing for scale and packaging inspections);
- \$3 million for treatment courts;
- \$300,000 for the Department of Education to provide schools and districts with access to cannabis- and substance-use resources;

- \$2.9 million for the Department of Human Services to process additional background studies and to provide certain required data and consultations. \$1 million of this appropriation was expected to be reimbursed through Federal Funds Participation;
- \$2 million for the Office of Higher Education to make dual training competency grants to employers in the legal cannabis industry;
- \$239,000 for the Department of Labor and Industry to provide occupational competency standards and technical assistance for dual-training programs on cannabis;
- \$338,000 one-time for the Department of Natural Resources to do conservation officer training;
- \$210,000 for the Pollution Control Agency for additional wastewater staff and to provide technical assistance to small businesses;
- \$8.5 million for the Department of Revenue to administer the local government cannabis aid account and the collection of cannabis-related taxes;
- \$1.1 million one-time to the Supreme Court for costs related to cannabis conviction expungement; and
- \$5.2 million to the University of Minnesota, of which \$5 million was to establish a Center for Cannabis Research in the School of Public Health and \$200,000 was for a post-doctoral position, a position in University of Minnesota Extension, and research grants.

Chapter 63 reduced appropriations to the Department of Corrections in FY 2024-25 by \$533,000 and to its FY 2026-27 base by \$963,000, for an expected reduction in prison bed usage related to cannabis-related crimes.



## Revenue

Chapter 63 provided a licensing structure and fee schedule for certain cannabis-related businesses, including cultivation, manufacturing, wholesaling, retailing, and testing, among others. Fees are deposited in the General Fund as non-dedicated receipts. Revenues raised from these fees are \$8.7 million for FY 2024-25 and \$17.3 million for FY 2026-27.

Chapter 63 subjected the sale of cannabis to the state general sales tax of 6.875 percent. Three-eighths of one percent is constitutionally dedicated to the Legacy Funds, with the remainder deposited in the General Fund. The law further imposed a ten percent gross receipts tax on cannabis sales, 80 percent of which is deposited in the General Fund and 20 percent of which is deposited in the Special Revenue Fund for distribution to cities and counties. Total General Fund revenue raised from the combined taxes is \$74.1 million in FY 2024-25 and \$212.5 million in FY 2026-27.

Non-General Fund revenue changes included:

- a reduction of \$17.3 million to the State Government Special Revenue Fund in FY 2024-25 and \$31.3 million in FY 2026-27, due to the elimination of a dedicated revenue source to that fund from the sale of medical cannabis;
- the Special Revenue Fund component of the gross receipts tax of \$10.7 million in FY 2024-25 and \$30.3 million in FY 2026-27; and
- the Legacy Fund component of the state general sales tax of \$1.3 million in FY 2024-25 and \$4.3 million in FY 2026-27.

