

Department of Planning and Budget
2026 General Assembly Session
State Fiscal Impact Statement

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ORIGINAL

Bill Number: HB642H1 **Patron:** Krizek
Bill Title: Cannabis control; retail market; penalties.

Bill Summary: Establishes a framework for the creation of a retail marijuana market in the Commonwealth, to be administered by the Virginia Cannabis Control Authority. The bill provides that no retail sales may occur prior to November 1, 2026.

Budget Amendment Necessary: Yes. **Items Impacted:** Item 415 (VSP), Item 50 (OAG), Item 390 (DOC), Items 91 and 92 (VDACS), Item 491 (CCA), and Items 261 and 263 (TAX)

Explanation: See below.

Fiscal Summary: The proposed bill has varying levels of impact on several state agencies: Virginia State Police (VSP), Virginia Office of the Attorney General (OAG), Virginia Department of Corrections (DOC), Virginia Department of Agriculture and Consumer Services (VDACS), and Virginia Cannabis Control Authority (CCA).

General Fund Expenditure Impact:

<u>Agency</u>	<u>FY2026</u>	<u>FY2027</u>	<u>FY2028</u>	<u>FY2029</u>	<u>FY2030</u>	<u>FY2031</u>
VSP		\$211,245	\$199,510	\$199,510	\$199,510	\$199,510
OAG	\$40,056	\$160,226	\$160,226	\$160,226	\$160,226	\$160,226
DOC	\$0	\$50,000	\$0	\$0	\$0	\$0
VDACS	\$0	\$865,365	\$865,365	\$865,365	\$865,365	\$865,365
TOTAL	\$40,056	\$1,286,836	\$1,225,101	\$1,225,101	\$1,225,101	\$1,225,101

Nongeneral Fund Expenditure Impact:

<u>Agency</u>	<u>FY2026</u>	<u>FY2027</u>	<u>FY2028</u>	<u>FY2029</u>	<u>FY2030</u>	<u>FY2031</u>
CCA	\$1,197,609	\$15,547,330	\$15,547,330	\$15,547,330	\$15,547,330	\$15,547,330
TOTAL	\$1,197,609	\$15,547,330	\$15,547,330	\$15,547,330	\$15,547,330	\$15,547,330

Position Impact:

<u>Agency</u>	<u>FY2026</u>	<u>FY2027</u>	<u>FY2028</u>	<u>FY2029</u>	<u>FY2030</u>	<u>FY2031</u>
VSP	0	2	2	2	2	2
OAG	1	1	1	1	1	1
CCA	36	80	80	80	80	80

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VDACS	0	7	7	7	7	7
TOTAL	37	90	90	90	90	90

Fiscal Analysis:

VSP: Currently, the Civil and Applicant Records Exchange (CARE) is tasked with processing criminal history record background checks. Currently, one Fingerprint Technician and one Program Support Technician can process up to 10,000 inked fingerprint cards per year and up to 20,000 electronic fingerprint transmissions. It is unknown how many background checks will be required as a result of this bill. VSP reports that CARE is operating at capacity, and the cost for two additional two positions is \$211,246 the first year and \$199,511 in subsequent years, including salary and benefits.

TAX: TAX does not require additional funding at this time because the implementation costs of this bill can be absorbed within existing resources.

In November 2020, the Joint Legislative Audit and Review Commission (JLARC) published a report entitled “Key Considerations for Marijuana Legalization.” Using the midrange point of JLARC’s estimates as a base, it is estimated that this bill could generate total state revenues of \$8.8 million in Fiscal Year 2027, \$15 million in Fiscal Year 2028, \$30.6 million in Fiscal Year 2029, \$47.1 million in Fiscal Year 2030, \$61.5 million in Fiscal Year 2031, and \$74.0 million in Fiscal Year 2032. Such revenues include additional revenues estimated to be generated from the eight percent state excise tax and 1.125 percent sales tax that would be imposed by this bill. These estimates exclude the impact of any local excise tax not less than one percent but not greater than three and one-half percent that could be imposed under this bill.

According to TAX, the detailed estimated revenue impact of the bill is as follows:

Fiscal Year Revenue Collections and Uses from Retail Marijuana Market (Millions \$)						
	Fiscal Year 2027	Fiscal Year 2028	Fiscal Year 2029	Fiscal Year 2030	Fiscal Year 2031	Fiscal Year 2032
Marijuana Tax (8%)	\$8.8	\$15.0	\$30.6	\$47.1	\$61.5	\$74.0
Sales and Use Tax (1.115%) ¹	\$1.2	\$2.1	\$4.3	\$6.6	\$8.6	\$10.3
Local Option (1%)	\$1.1	\$1.9	\$3.8	\$5.9	\$7.7	\$9.3
<i>Local Option (3.5%)</i>	\$3.8	\$6.6	\$13.4	\$20.6	\$26.9	\$32.4
<i>Local Taxes (Food and Beverage, Meals)</i>	<i>Unknown Gain</i>					
Marijuana Tax (8%)-Uses	\$8.8	\$15.0	\$30.6	\$47.1	\$61.5	\$74.0
Pre-K Programs	\$3.5	\$6.0	\$3.1	\$4.7	\$6.1	\$7.4
Cannabis Equity Reinvestment Fund	\$2.6	\$4.5	\$18.4	\$28.2	\$36.9	\$44.4
Substance Use Disorder	\$2.2	\$3.8	\$7.6	\$11.8	\$15.4	\$18.5
Public Health Program	\$0.4	\$0.7	\$1.5	\$2.4	\$3.1	\$3.7
SUT Distributions (1.115%)	\$1.2	\$2.1	\$4.3	\$6.6	\$8.6	\$10.3
GF - Restricted (1%)		\$1.1	\$1.9	\$3.8	\$5.9	\$7.7
						\$9.2

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GF - Transfer (0.115%)	\$0.1	\$0.2	\$0.5	\$0.7	\$0.9	\$1.1
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¹ Includes 1% education funding based on school age population, 0.125% education transfer based on school age population, less the 0.01% dealer discount.

² Until July 1, 2028, distribution of funds will be 40% for Pre-K, 30% for Cannabis Equity Reinvestment, 25% for Substance Use Disorder, 5% for Public Health Programs.

³ Beginning July 1, 2028, distribution of funds will be 10% for Pre-K, 60% for Cannabis Equity Reinvestment, 25% for Substance Use Disorder, 5% for Public Health Programs.

* Estimates based upon JLARC's 2020 Retail Cannabis Sales Estimates, combined with calculations based on CCA medical sales data and ratios of medical recreational sales from other states.

** Estimates assume retail sales beginning January 1, 2027. All sales would be taxed at the 8% marijuana tax rate, in addition to 1.125% of sales and use tax. Localities would have the option to impose a tax of at least 1.0% and up to 3.5% in addition to local sales tax and local food and beverage tax.

*** Tax revenues for SUT and Marijuana Tax categories are generated by applying respective rates and distributions to the adult-use recreational marijuana sales estimates created by JLARC, combined with VA Tax calculations referenced above.

The eight percent state tax and any local option tax due would be collected by the seller and remitted to CCA.

Until July 1, 2028, after returning the local tax to the locality in which it was collected, the Authority would allocate the revenue from the state tax as follows: 40% to pre-kindergarten programs for at-risk three-year-olds and four-year-olds; 30% to the Cannabis Equity Reinvestment Fund; 25% to the Department of Behavioral Health and Developmental Services; and 5% percent to public health programs.

Beginning July 1, 2028, after returning the local tax to the locality in which it was collected, the Authority would allocate the revenue from the tax as follows: 10 percent to pre-kindergarten programs for at-risk three-year-olds and four-year-olds, 60 percent to the Cannabis Equity Reinvestment Fund, 25 percent to the Department of Behavioral Health and Developmental Services, and five percent to public health programs.

The bill would also allow taxpayers to claim income tax deductions on their Virginia returns for ordinary and necessary expenditures made in connection with carrying on a trade or business licensed under the Cannabis Control Act beginning January 1, 2026.

OAG: The Office would require one attorney devoted to the Cannabis Control Authority. Within Chapter 725-2025 Session Virginia Acts of Assembly, Item 49.C, the Office can invoice for legal services to wholly or partially non-generally funded. If allowable, OAG could bill CCA for the cost, otherwise the Office would need one attorney to provide services to CCA.

VDACS: Currently, the Code of Virginia requires the Office of Weights and Measures (OWM) at VDACS to test and certify accuracy of all weights and measures devices in the Commonwealth.

The estimated number of weighing and measuring devices used commercially in Virginia and subject to inspection is 147,803. At full capacity, OWM has 25 inspectors and three supervisors. The inspectors are currently responsible for inspecting retail fuel dispensers, commercial scales, commodities sold in package form, motor fuel quality, and retail price verifications on point of sale (POS) systems.

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During fiscal year 2025, OWM staff inspected 89,316 weighing and measuring devices. Of the 89,316 weighing and measuring devices inspected, 21,549 were rejected for inaccuracies. Staff also collected 4,948 motor fuel samples. Staff spent approximately 1,645 hours investigating 364 consumer complaints submitted to OWM.

Along with devices, OWM staff verify the weight of commodities sold in package form and conduct audits of the POS systems. Staff sampled 25,930 packaged commodities to check for accurate weight and conducted 69,905 price verifications on the POS systems.

The scales used in retail marijuana stores will require more precision and smaller standards than those that are currently used by OWM. VDACS anticipates that the number of complaints and violations that require follow-up inspection would also increase. VDACS anticipates needing four additional employees in OWM. The estimated cost for these positions is \$549,728 annually, including salary and benefits.

There are currently an estimated 29 edible marijuana processing facilities in the Commonwealth. VDACS also anticipates needing three additional employees in Program 554, Food Safety and Security, to inspect these facilities. This includes two employees for inspectors and one employee for a technical specialist who would be responsible for reviewing the applications of new edible marijuana processing facilities, providing technical support, and conducting needed research. The cost for these positions is \$315,637 annually, including salary and benefits.

CCA: Under this bill, there will eventually be at least 700 adult use licenses in Virginia. CCA will assess and collect licensing fees for each of these licenses to fund the program. This bill will impact the nongeneral fund in FY26, and subsequent years for CCA. CCA will require additional staff and resources to prepare and implement the framework for the retail adult use market. The reliance on nongeneral fund revenue is dependent on CCA's ability to retain a portion of the medical processor conversion fee and/or the additional licensing fees. In FY27, 75 percent of the license fees collected will be directed to the equity business loan fund, thus, depending on tax revenue, the CCA may not have enough nongeneral fund revenue to fully fund the program in FY27. In subsequent years, the adult use program will be fully funded by licensing fee revenue.

The CCA will need a total of 80 additional employees, with 36 employees to be hired in FY2026, and 44 in FY2027. The necessary staff categories include Education, Legal and Policy, Investigation, Licensing, Compliance, Data, Information Technology, Human Resources, and Finance. Employees will cost \$516,168 in FY26, and \$10,287,293 in subsequent years, including salary and benefits.

CCA will also need resources for operations. Travel, equipment, and training will cost \$30,953 in FY26, and \$653,428 in subsequent years. Lottery machine certifications will cost \$32,900 in FY26. Compliance and enforcement will cost \$7,800 in FY26, \$390,268 in FY27, and \$39,268 in subsequent years. Software will cost \$350,000 in FY26, and \$500,000 in subsequent years. Attorney services will cost \$50,000 in FY26 and subsequent years. Public Health and Engagement will cost \$261,735 in FY26, and \$181,735 in subsequent years. Media and Public Relations will cost \$1,500,000 in FY26 and subsequent years. Consulting fees will cost \$48,000 in FY26, and \$64,000 in FY27. Rent for satellite locations will cost \$71,600 in FY26 and subsequent

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years. Impact Licensee Verification Services will cost \$779,000 in FY27. Information Technology will cost \$211,788 in FY26, \$989,846 in FY27, and \$387,362 in subsequent years.

Criminal Impact: This bill creates new misdemeanor and felony offenses. The number of individuals who may be convicted of the new misdemeanors and felonies defined in the proposal, and the sentences these individuals may receive, is not known. By creating a regulatory and licensing structure, the proposal may result in fewer convictions related to the unlawful distribution of marijuana. Whether or not, or the extent to which this will occur, is not known.

There is not enough information available to reliably estimate the increase in jail population as a result of this proposal. However, any increase in jail population will increase costs to the state. The Commonwealth currently pays localities \$5.00 a day for each misdemeanant or otherwise local-responsible prisoner held in a jail. It also funds a large portion of the jails' operating costs, e.g., correctional officers. The state's share of these costs on a per prisoner, per day basis varies from locality to locality. However, according to the Compensation Board's most recent Jail Cost Report (November 2025), the estimated total state support for local jails averaged \$58.25 per inmate, per day in FY 2024.

Due to the lack of data, VCSC has concluded, pursuant to § 30-19.1:4, the estimated amount of the necessary appropriation cannot be determined for periods of imprisonment in state adult correctional facilities; therefore, Chapter 725 of the Acts of Assembly of 2025, requires the Virginia Criminal Sentencing Commission to assign a minimum fiscal impact of \$50,000.

Virginia Department of Education: No expected material fiscal impact on agency operations.

Virginia Department of Motor Vehicles: No expected material fiscal impact on agency operations.

Virginia Lottery: The impact to the Virginia Lottery is unknown at this time.

Virginia Department of Health Professions: No expected material fiscal impact on agency operations.

Other: SB542 is a companion to this bill.