LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **HB 491** HLS 19RS 317

Bill Text Version: **ORIGINAL**

Opp. Chamb. Action:

Proposed Amd.:

Sub. Bill For.:

Date: April 22, 2019 4:24 PM **Author:** SCHEXNAYDER

Dept./Agy.: Agricultural and Forestry

Subject: Provides for the regulation of industrial hemp **Analyst:** Willis Brewer

AGRICULTURAL COMMODITIES OR INCREASE SD EX See Note

Provides for the regulation of industrial hemp

Proposed law authorizes the cultivation and processing of industrial hemp as a legal, agricultural activity of the state; provides for definitions; provides for the powers and responsibilities of the Agricultural Chemistry and Seed Commission; provides for the powers and duties of the Louisiana commissioner of agriculture and forestry and provides for reporting requirements; provides for licensure of industrial hemp seed producers, growers of industrial hemp, processors of industrial hemp, and contract carriers; provides for licensing procedures, requirements and restrictions; provides for records retention; provides for the establishment of annual license and testing fees to be paid to the department and deposited into the statutorily dedicated Seed Fund; provides for testing and inspections by the Louisiana Department of Agriculture and Forestry; provides for harvesting and distribution requirements; provides for authorization of the LSU and SU Agricultural Centers to conduct research on cultivating, handling and processing industrial help and on industrial hemp seeds for research and development of new varieties; provides for prohibitions; provides for civil penalties; provides for violation fines; provides for criminal penalties; and provides for exemption if industrial hemp from the provisions of the Uniform Controlled Dangerous Substance Laws.

EXPENDITURES	2019-20	2020-21	2021-22	2022-23	2023-24	5 -YEAR TOTAL
State Gen. Fd.	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	
Agy. Self-Gen.	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	
Ded./Other	INCREASE	INCREASE	INCREASE	INCREASE	INCREASE	
Federal Funds	$0	$0	$0	$0	$0	**$0**
Local Funds	$0	$0	$0	$0	$0	**$0**
Annual Total						

REVENUES	2019-20	2020-21	2021-22	2022-23	2023-24	5 -YEAR TOTAL
State Gen. Fd.	$0	$0	$0	$0	$0	**$0**
Agy. Self-Gen.	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	
Ded./Other	INCREASE	INCREASE	INCREASE	INCREASE	INCREASE	
Federal Funds	$0	$0	$0	$0	$0	**$0**
Local Funds	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	
Annual Total						

EXPENDITURE EXPLANATION

Proposed law will significantly increase expenditures from statutory dedications out of the Seed Fund for LDAF to supervise production and harvest of hemp, to test hemp, and to regulate the manufacturing of hemp (see NOTE below). **Proposed law** provides for LDAF to assess a fee commensurate with LDAF's activities; therefore, **proposed law** anticipates an adequate revenue source to support recurring expenditures. However, initial startup personnel and equipment costs may require an expenditure of SGF or may require LDAF to use other revenue sources to absorb the costs until revenues are sufficient. The number of growers that would choose to grow hemp for manufacturing purposes cannot be determined.

NOTE: LDAF estimates first year costs at 50% of annual expenditure, assuming the program begins six months into FY 20, and increases personal services costs 2% annually thereafter. **These assumptions yield statutorily dedicated expenditures of $130,603 in FY 20, $257,405 in FY 21, $262,005 in FY 22, $266,687 in FY 23 and $271,453 in FY 24.** To the degree activity is greater than or less than the illustrative example below, the LFO assumes these costs would grow or shrink in proportion to the actual number of growers.

EXPENDITURE EXPLANATION CONTINUED ON PAGE TWO

REVENUE EXPLANATION

Proposed law will significantly increase statutorily dedicated revenues to be deposited into the Seed Fund for LDAF from license fees paid by qualified hemp growers, may potentially increase SGR revenues for the LSU and SU Agricultural Centers from the proceeds generated through research and development of new hemp varieties, and may increase LF revenues generated from civil and criminal penalties.

Proposed law provides for LDAF to assess fees on hemp growers commensurate with the LDAF's costs to administer the program. The proceeds of these funds would be deposited into the statutorily dedicated Seed Fund (see NOTE below) . The number of growers that would choose to grow hemp for manufacturing purposes cannot be determined.

NOTE: LDAF assumes that the application and licensing process will begin in FY 20, but growing and processing of crops will not begin until FY 21. LDAF assumes that the number of growers will increase 2% annually beginning in FY 22 (approximately 5 growers given the assumptions in the illustrative example). **These assumptions yield statutorily dedicated revenues of $132,500 in FY 20, $257,500 in FY 21, $262,500 in FY 22, $267,500 in FY 23 and $272,500 in FY 24.** To the degree activity is greater than or less than the illustrative example on page 2, the LFO assumes these revenues would grow or shrink in proportion to the actual number of growers and LDAF's projected costs.

REVENUE EXPLANATION CONTINUED ON PAGE 2

Senate Dual Referral Rules

[x] 13.5.1 >= $100,000 Annual Fiscal Cost {S & H}

[ ] 13.5.2 >= $500,000 Annual Tax or Fee Change {S & H}

House

[ ] 6.8(F)(1) >= $100,000 SGF Fiscal Cost {H & S}

[ ] 6.8(G) >= $500,000 Tax or Fee Increase or a Net Fee Decrease {S}

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Staff Director

CONTINUED EXPLANATION from page one:

CONTINUED EXPENDITURE EXPLANATION FROM PAGE ONE

The number of growers will directly impact the recurring personnel cost. As an illustrative example, if 250 growers were authorized to grow, harvest, possess, process, and sell hemp, LDAF anticipates it will need four Agricultural Environmental Specialist (AES) Inspectors at a total recurring cost of $257,405 including $205,005 in personal services ($146,432 salaries, $58,573 related benefits), $27,400 in support costs ($1,200 telephone, $1,000 Supplies, Vehicle lease ($24,400), and Uniforms ($800), and $25,000 for hemp (THC) lab testing assuming two samples are tested per year per grower at a per sample cost of $50 (250 growers x 2 tests per year x $50). In addition, there will be one-time costs of $14,000 for computer and data equipment ($3,500 x 4) that these inspectors will be using.

Proposed law authorizes, but does not require, the Louisiana State University (LSU) Agricultural Center and Southern University (SU) Agricultural Center to cultivate, handle, and process industrial hemp and industrial hemp seeds for research and development of new varieties. To the extent an agricultural center chooses to do this, there will likely be significant but indeterminable SGF and/or SGR one-time and recurring expenditures for equipment and staff. The expenditures are anticipated and assumed to be offset with the revenue from the sales of new industrial hemp seed varieties, but the enterprise will likely require an upfront investment (assumed to be SGF) by the agricultural center(s). The agricultural centers are currently (LSU Agricultural Center), or in the process of (SU Agricultural Center), growing and researching cannabis crops in relation to medical marijuana. Therefore, the agricultural centers may be able to absorb the additional workload authorized in **proposed law**, either wholly or partially, using existing staff and resources.

Proposed law provides that any person who violates the provisions of **proposed law** will be subject to civil penalty fines of up to $500 per violation per day and criminal penalty fines up to $50,000 in addition to imprisonment from one to 20 years. The number of individuals that may be convicted under the provisions of **proposed law** is indeterminable. SGF expenditures will increase by $60.09 per offender per day if an offender is housed in a state facility or $24.39 for a state offender housed in a local facility. An offender sentenced to the custody of the Department of Public Safety and Corrections - Correction Services for one year would increase SGF expenditures by $21,992.03 ($60.09 per day x 366 days) if housed in a state facility and $8,926.74 ($24.39 per day x 366 days) if housed in a local facility.

CONTINUED REVENUE EXPLANATION FROM PAGE ONE

The number of growers will directly impact potential revenues. As an illustrative example, if 250 growers were authorized to grow, harvest, possess, process, and sell hemp, LDAF anticipates it will assess a $500 licensure fee to each seed producer, grower, and processor; a $250 licensure fee to each contract carrier; and $250 fee per lab sample test. Under this example, LDAF assumes five seed producers will generate $2,500 ($500 x 5), five processors will generate $2,500 ($500 x 5), 250 growers will generate $125,000 ($500 x 250), 10 contract carriers will generate $2,500 ($250 x 10), and the lab sample testing will generate $125,000 ($250 x 2 annual tests x 250 growers). LDAF assumes the application and licensing process will begin in the first year; but the growing, processing, inspections, and testing will not begin until the second year of this process.

Proposed law may result in a significant but indeterminable increase in SGR revenues for the LSU and SU Agricultural Centers if either choose to develop and sell industrial hemp seed varieties. It is not known when these seeds would be available for sale, the quantity of the seeds, the price of each variety of seed, and the number of buyers needed in order to estimate the revenues.

Proposed law may result in an indeterminable increase in Local Funds revenue as a result of potential fines from violating provisions of **proposed law**. The maximum civil fine is $500 and the maximum criminal fine is $50,000. The potential revenue will accrue to the local governing authority. The potential net effect on sentencing decisions cannot be determined and the potential revenue impact is therefore unknown.

Senate	Dual Referral Rules	House
[x] 13.5.1 >= $100,000 Annual Fiscal Cost {S & H}		[ ] 6.8(F)(1) >= $100,000 SGF Fiscal Cost {H & S}
[ ] 13.5.2 >= $500,000 Annual Tax or Fee Change {S & H}		[ ] 6.8(G) >= $500,000 Tax or Fee Increase or a Net Fee Decrease {S}

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