LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **HB 491** HLS 19RS 317
Bill Text Version: **REENGROSSED**
Opp. Chamb. Action: **w/ SEN COMM AMD**
Proposed Amd.:
Sub. Bill For.:
REVISED

Date: May 23, 2019 7:41 AM
Author: SCHEXNAYDER
Dept./Agy.: Agricultural and Forestry
Subject: Provides for the regulation of industrial hemp
Analyst: Alan M. Boxberger

AGRICULTURAL COMMODITIES RE1 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; provides for definitions; provides for powers and responsibilities of the Agricultural Chemistry and Seed Commission; provides for powers and duties of the Louisiana commissioner of Agriculture and Forestry and provides for reporting; provides for licensure of industrial hemp seed producers, growers and processors of industrial hemp, and contract carriers; provides for regulation of hemp-derived cannabidiol products; provides for licensing procedures, requirements and restrictions; provides for records retention; provides for 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 La. 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 and criminal penalties; provides for violation fines; provides for criminal penalties; provides for exemption of industrial hemp from the provisions of the Uniform Controlled Dangerous Substance Laws; and clarifies that any facility producing hemp seed products for consumption are subject to inspection by LDH.

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.	INCREASE	INCREASE	INCREASE	INCREASE	INCREASE	
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 EXPENDITURE NOTE 1 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.

EXPENDITURE NOTE 1: 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.

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

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, will likely increase SGR revenues for LDH from inspection of hemp production firms that produce consumable goods, permits and the sale of product labels for hemp and CBD products, 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 REVENUE NOTE below). The number of growers that would choose to grow hemp for manufacturing purposes cannot be determined.

REVENUE 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 on page 2). **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}

[x] 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}

Evan Brasseaux

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Staff Director

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CONTINUED EXPLANATION from page one:

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support costs ($1,200 telephone, $1,000 supplies, $24,400 for vehicle leases, $800 for uniforms, 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 indeterminable 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 clarifies that any facility producing hemp and cannabidiol (CBD) products for consumption are subject to inspection by the Louisiana Department of Health (LDH). LDH's Bureau of Sanitarian Services reports that the activities defined in **proposed law** will be a new service provided by the department and estimates it will require four additional Sanitarian positions at a total annual cost of $426,726 (salaries and benefits) tasked with permitting, reviewing process authority results, and reviewing the labels at hemp production firms that produce consumable goods (see EXPENDITURE NOTE 2 below). The Legislative Fiscal Office is unable to determine or validate the staff level necessary to inspect these facilities. To the extent the additional workload is less than what LDH anticipates, the additional workload may be absorbable, either wholly or partially, using existing staff and resources or may be achievable with fewer than 4 T.O. positions. Alternatively, if industry activity expands dramatically, LDH may require additional resources over the estimate provided. Other costs LDH estimates includes $41,880 for recurring operating services expenditures (travel, supplies, vehicle rental, telephone) and one-time FY 20 expenditures of $5,544 for acquisition of office equipment (LDH estimates an additional expenditure of $3,168 in FY 24 for replacement equipment). The LFO anticipates LDH will use the revenues from inspecting these facilities and the sale of product labels to cover its estimated operating costs, however, it cannot be determined whether these funds will be sufficient to cover these significant expenditures. LDH reports that it will likely require SGF resources to offset a portion of expenses until the industry expands to the point of supporting the agency in a self-sufficient manner through the collection of permits fees and sale of product labels in FY 24 (estimated SGF need of $95,274 in FY 20, $148,701 in FY 21, $91,854 in FY 22, and $22,047 in FY 23). LDH estimates collections will fully cover operating costs beginning in FY 24.

EXPENDITURE NOTE 2: LDH projects expenditures assuming 9 months of activity in FY 20, yielding personal services expenditures of $317,925 and total expenditures of $366,149. LDH's expenditure projections annualize first year recurring expenditures in FY 21 to reflect a full twelve months of activities yielding total expenditures of $473,926 and provide a 2% adjustment to personal services expenditures in the out years yielding total expenditure estimates of $482,404 in FY 22, $490,882 in FY 23 and $502,528 in FY 24.

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 with hard labor for not less than one year nor more than twenty two 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 will likely result in a significant but indeterminable increase in SGR revenues for LDH from the inspections of hemp production firms that produce consumable goods as well as permit fees and the sale of product labels. LDH estimates the total revenue collections from these inspections will range from $270,875 in FY 20 up to $572,497 in FY 24. LDH's projected revenues will not fully cover its projected expenditures until FY 24 (see expenditure explanation above).

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.

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