

LEGISLATIVE FISCAL OFFICE
Fiscal Note



Fiscal Note On: **HB 1112** HLS 16RS 1747

Bill Text Version: **ORIGINAL**

Opp. Chamb. Action:

Proposed Amd.:

Sub. Bill For.:

Date: April 27, 2016 8:50 AM	Author: JAMES
Dept./Agy.: DHH/Pharmacy/Agriculture	Analyst: Willis Brewer
Subject: Medical cannabis provisions, registration, ordinances, & use	

DRUGS/CONTROLLED OR INCREASE GF EX See Note
Establishes the Louisiana Therapeutic Use of Cannabis Act

Proposed law authorizes the therapeutic use of cannabis for persons who suffer from qualifying medical conditions. Requires qualifying patients and their designated caregivers to register with the Dept. of Health and Hospitals to receive a registry identification card. Proposed law provides for the registration of therapeutic cannabis manufacturers with the Dept. of Agriculture and Forestry dispensaries and the La. Board of Pharmacy, and authorizes local ordinances to regulate the dispensing or use of therapeutic cannabis. Proposed law provides for the registration of cannabis testing facilities with the Dept. of Health and Hospitals. Proposed law establishes an advisory committee appointed by the legislature. Proposed law requires the state regulatory entities to promulgate administrative rules to provide for regulation of the registrants, establishes penalties for violations of proposed law, and provides for the confidentiality of data provided by registrants and creates an exemption to the Public Records Law for the data. Proposed law requires DHH et al to provide an annual report to legislature. Proposed law provides that provisions shall prevail over conflicting provisions.

EXPENDITURES	2016-17	2017-18	2018-19	2019-20	2020-21	5 -YEAR TOTAL
State Gen. Fd.	INCREASE	INCREASE	INCREASE	INCREASE	INCREASE	
Agy. Self-Gen.	INCREASE	INCREASE	INCREASE	INCREASE	INCREASE	
Ded./Other	\$0	\$0	\$0	\$0	\$0	\$0
Federal Funds	\$0	\$0	\$0	\$0	\$0	\$0
Local Funds	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	\$0
Annual Total						

REVENUES	2016-17	2017-18	2018-19	2019-20	2020-21	5 -YEAR TOTAL
State Gen. Fd.	INCREASE	INCREASE	INCREASE	INCREASE	INCREASE	
Agy. Self-Gen.	INCREASE	INCREASE	INCREASE	INCREASE	INCREASE	
Ded./Other	\$0	\$0	\$0	\$0	\$0	\$0
Federal Funds	\$0	\$0	\$0	\$0	\$0	\$0
Local Funds	INCREASE	INCREASE	INCREASE	INCREASE	INCREASE	
Annual Total						

EXPENDITURE EXPLANATION

This measure is anticipated to have a significant increase in personnel and related expenditures to the Board of Pharmacy of approximately \$150,000, Department of Agriculture and Forestry of approximately \$728,000, and Department of Health and Hospitals (DHH) of approximately \$780,000 for a combined FY 17 cost of \$1.7 million and total annual costs in subsequent years of \$1.6 million. Specific projected expenditures by department are outlined below.

Board of Pharmacy

The Board of Pharmacy has indicated that it will require one additional compliance officer at a total cost of \$150,000 (salary and benefits) to conduct up to 25 on site inspections of therapeutic cannabis dispensaries. Currently, the Board of Pharmacy has five (5) compliance officers that inspect approximately 1,900 pharmacies (estimated 380 pharmacies per compliance officer), but medical cannabis inspection and compliance is anticipated to require a compliance officer with specialized knowledge and experience.

Department of Agriculture and Forestry

The Department of Agriculture and Forestry has indicated it will require four (4) additional employees including an inspector, program manager, auditor, and administrative specialist for a combined annual personal services (salaries and benefits) cost of \$325,000. It is anticipated cannabis inspection, auditing, and oversight will require staff with specialized knowledge and experience; however, the need for these positions will depend on the number of approved manufacturing facilities and the associated workload.

See page 2 for further explanation.

REVENUE EXPLANATION

This measure is anticipated to result in a significant increase in annual fees and self-generated revenues to the Board of Pharmacy of approximately \$50,000 - \$125,000, the Department of Agriculture and Forestry of approximately \$10,000 - \$75,000, and the Department of Health and Hospitals (DHH) of approximately \$627,500 - \$644,000, for a combined increase in annual state fees and self-generated revenues of approximately \$687,500 - \$844,000. Specific projected revenues by department are outlined below.

Board of Pharmacy

This measure will require the Board of Pharmacy to begin accepting applications for a maximum of twenty-five (25) registered therapeutic cannabis dispensary licenses by 2/1/2017 and shall approve no less than ten (10) therapeutic cannabis dispensary licenses by 3/1/2017. This measure allows for a maximum annual registration and renewal fee of \$5,000. To the extent the department establishes the maximum fee, the anticipated annual revenues from this fee imposed by the Board of Pharmacy will range from a minimum of \$50,000 to a maximum of \$125,000.

Department of Agriculture and Forestry

This measure will require the Department of Agriculture and Forestry (Ag) to begin accepting applications for therapeutic cannabis manufacturers by 1/1/2017 and shall approve no less than two (2) and no more than fifteen (15) registered therapeutic cannabis manufacturers by 3/1/2017. This measure allows for a maximum annual registration and renewal fee of \$5,000. To the extent the department establishes the maximum fee, the anticipated annual revenues from this fee imposed by Ag will range from a minimum of \$10,000 to a maximum of \$75,000.

Continued on Page 2.

<u>Senate</u>	<u>Dual Referral Rules</u>	<u>House</u>
<input checked="" type="checkbox"/> 13.5.1 >= \$100,000 Annual Fiscal Cost {S&H}	<input checked="" type="checkbox"/> 6.8(F)(1) >= \$100,000 SGF Fiscal Cost {H & S}	
<input checked="" type="checkbox"/> 13.5.2 >= \$500,000 Annual Tax or Fee Change {S&H}	<input type="checkbox"/> 6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease {S}	

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CONTINUED EXPLANATION from page one:

Department of Agriculture and Forestry Expenditure Explanation continued from page one:

In addition to the personal services costs, Ag and Forestry estimates other support costs of nearly \$400,000. The majority of the estimated support costs are for contracting lab services (\$300,000, annually). Lab services are required to test cannabis to ensure it meets the required medical standards. The cannabis product will be tested two different times during the product cycle. After the cannabis is grown and the oil is extracted, the oil is sent to a contracted lab for testing for contaminants. After the oil is manufactured into a product, the final product before being distributed is then tested again for contaminants. Based on preliminary research conducted by Ag & Forestry, the lab cost to conduct both of these tests is less than \$2,000 per product. The department's estimate of \$300,000 indicates the department is anticipating approximately 150,000 tests may be conducted annually, however, to the extent less products are tested annually, the actual cost will be less than this estimate. Another significant cost is associated with the inventory control system (\$70,000, annually). The inventory control system is a registry database that will allow the department to catalogue and track all the medical cannabis from growth at a manufacturing facility through distribution at a dispensary. In addition, the department anticipates increases in annual expenditures associated with travel (\$9,000), operating services (\$6,000), supplies (\$4,000), and acquisitions (\$14,000) for a total other operating cost of \$33,000 in FY 17.

Department of Health and Hospital (DHH)

This measure requires the Department of Health and Hospitals (DHH) to manufacture and issue registry identification cards to qualified recipients that meet certain required conditions. DHH has estimated there may be as many as 18,000 patient registration identification cards and 2,000 caregiver registration cards issued the first year. The department anticipates the costs associated with the manufacturing and distribution of the cards will include one-time cost for two specialty printers to print the cards (\$8,000), the actual ID cards with security features for fraud prevention (\$38,000, annually), and other annual operating services including supplies, postage, and training (\$30,000) for a combined cost of \$76,000 the first year and annual costs of \$68,000 in subsequent years.

Furthermore, it is anticipated that the registry identification cards will require the department to modify its existing registry system (Louisiana Electronic Event Registration System or LEERS) in order to develop and implement a secure registry software and to allow this database to be accessible on the web for a first year one-time cost of \$88,000 (FY 17) and a recurring maintenance and support cost of \$16,000 (FY18-FY21). In addition, DHH will require hiring a program supervisor (\$95,000) and four program monitors/analyst (\$356,000) for a total personal cost (salary and benefits) of \$451,000 related to vital records registry. However, the need for these positions will depend on the number of approved facilities and the associated workload. Total first year costs associated with the registry system is estimated to be \$539,000. Total estimated cost associated with vital records and registry cards is estimated to be \$615,000 for the first year and \$535,000 in subsequent years.

DHH has indicated laboratory inspection and certification services will cost the department \$15,000 the first year and \$11,500 subsequent years. This cost is associated with the training and membership fees for national certification for staff that will register the facilities, inspect the facilities, and provide a certificate to these facilities. DHH estimates costs associated with sanitarian services include first year costs of computers, rule making, and printers (\$4,000), annual training, supplies, postage (\$17,000), and hiring additional staff (Program inspector - \$96,000 and an Administrator Coordinator - \$33,000) for a total estimated cost of \$150,000 the first year and \$146,000 in the subsequent years. Sanitarian services include the inspection of any edible product the manufacturers produce in regards to medical cannabis. DHH has assumed all fifteen manufacturing sites are authorized and that a minimum of 10 edible products will be available at each site. Therefore using DHH's estimates, there may be 150 new products that will have to be inspected by DHH's Office of Public Health sanitarian services section. However, to the extent there are less manufacturers, there will be considerably less products to be inspected and there will less costs incurred by the department.

DHH and Ag have both stated it will inspect manufacturing facilities. To the extent the Department of Agriculture and Forestry and the Department of Health and Hospitals are conducting similar inspection services, projected costs of each department may be overstated.

Continued Department of Health and Hospital (DHH) Revenue Explanation from page one:

This measure will require the Department of Health and Hospitals (DHH) to begin accepting applications for cannabis testing facilities by 2/1/2017 and shall approve no less than two (2) therapeutic cannabis dispensary licenses by 3/1/2017. The proposed law does not indicate an annual registration and renewal fee; however, to the extent the fee matches the registration and renewal fees imposed by Ag and Forestry (\$5,000), these two cannabis testing facilities are anticipated to generate annual revenues for the DHH of at least \$10,000.

This measure will require the Department of Health and Hospitals (DHH) to issue registry identification cards to qualified recipients. The application and renewal fee has to be based upon the qualifying patient's household income and the total expense of processing applications and issuing registry ID cards. Based on preliminary fee scheduled provided by DHH, it is anticipated DHH will charge 11,000 patients \$39 per registration card, 7,000 patients \$19 per card, and the 2,000 caregivers will be charged \$27 per card. Total projected annual revenues from these registration cards is estimated to be \$615,000. DHH has also indicated it is anticipating \$15,000 from a \$1,000 fee imposed on the potential 15 manufacturing facilities for food inspection and \$1,000 (\$15,000) and 150 new registered products at \$27 (\$4,050). However, to the extent only two (2) facilities are authorized, the expected revenues for food inspection (\$2,000) and twenty new registered products (\$540) will be considerably less. The estimated total annual revenues for DHH ranges from \$627,500 to \$644,000.

State Revenues

It is not clear whether medical cannabis sales as described in the bill would be interpreted as the sale of a prescription drug and, as such, exempt from state sales tax, though local sales tax revenue for authorities taxing prescription drugs may increase due to this bill. If sales of medical cannabis products as defined in the bill are deemed taxable, the magnitude of the potential increase is indeterminable since participation by physicians, dispensaries and eligible purchasers is not yet known. However, the experience in other states indicates that a significant amount, possibly in the millions of dollars, could be generated in sales tax revenue. There is also a state excise tax on cannabis under current law that would presumably include medical cannabis (R.S. 47:2601-2610). It is expected that general fund revenue from this excise tax would increase should this bill be enacted, as presumably any medical cannabis sold in the state would require a stamp, similar to the method used to collect the tobacco tax.

Overview of Estimated Revenues and Expenditures by Department for FY 17 Only.

Agency	Proj. Revenue FY 17	Proj. Cost FY 17	FY 17 Costs over Revenues	Proj. Annual Costs
Pharmacy	\$50,000 - \$125,000	\$150,000	(\$25,000) - (\$100,000)	\$150,000
Ag & Forestry	\$10,000 - \$75,000	\$728,000	(\$653,000) - (\$718,000)	\$728,000
DHH	\$627,500 - \$644,000	\$780,000	(\$136,000) - (\$152,500)	\$692,500
Total	\$687,500 - \$844,000	\$1,658,000	(\$814,000) - (\$970,500)	\$1,570,500

Senate Dual Referral Rules House

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| <input checked="" type="checkbox"/> 13.5.1 >= \$100,000 Annual Fiscal Cost {S&H} | <input checked="" type="checkbox"/> 6.8(F)(1) >= \$100,000 SGF Fiscal Cost {H & S} |
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