

February 23, 2016

The Honorable Mark Hutton, Chairperson
House Committee on Commerce, Labor and Economic Development
Statehouse, Room 521-E
Topeka, Kansas 66612

Dear Representative Hutton:

SUBJECT: Fiscal Note for HB 2634 by House Committee on Federal and State Affairs

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2634 is respectfully submitted to your committee.

HB 2634 would enact the Alternative Crop Research Act. The act is intended to help the state move to the forefront in industrial hemp production, development and commercialization of hemp products in agribusiness, alternative fuel production, and other business sectors, both nationally and globally. The bill would establish the Industrial Hemp Commission, which would consist of 23 members appointed according to the act and serving terms of four years. The Commission would be administered by the Kansas Department of Agriculture (KDA) and would meet quarterly and receive compensation, subsistence allowances, mileage and other expenses. Expenses of the Commission and the Industrial Hemp Research Program, also established by the bill, would be paid from the Industrial Hemp Program Fund created by the bill. Revenues to this fund would come from license fees, penalties, and private and public funds. The Commission would be authorized to enter into agreements with governmental agencies of Kansas and other states, as well as agencies of the federal government and private associations in order to carry out the provisions of the bill. The Commission would be required to hold its first meeting by July 1, 2017, and report to the Legislature and the Governor on the status and progress of the Industrial Hemp Research Program by December 31, 2017.

The bill would require that the Commission adopt federal laws and regulations regarding industrial hemp. A system of licensure for industrial hemp research growers, industrial hemp growers, and industrial hemp processors and distributors would be created, with the bill establishing requirements for license applications and renewals and for licensees. The bill would establish penalties for violations of the act and would authorize certain state educational

institutions to participate in activities for the purpose of developing and reproducing seeds that could be certified under the Kansas Seed Law for growing industrial hemp.

Estimated State Fiscal Effect				
	FY 2016 SGF	FY 2016 All Funds	FY 2017 SGF	FY 2017 All Funds
Revenue	--	--	--	\$3,000
Expenditure	--	--	\$782,397	\$785,397
FTE Pos.	--	--	--	6.00

The Kansas Board of Regents reports that passage of the bill would have an effect on Regents' postsecondary educational institutions involved with the Industrial Hemp Research Program. Expenditures associated with this involvement would not be dependent on State General Fund monies, however, but would be offset by revenue to the Industrial Hemp Program Fund, as well as public and private sources that could be used to implement the research program. The Kansas Department of Commerce indicates that passage of HB 2634 would have no fiscal effect on the agency.

According to the KDA, federal law currently prohibits growing hemp for anything other than research. As a result, there would be no revenue to the Industrial Hemp Program Fund to offset Commission expenses and the agency would need to use State General Fund to support the Commission. The agency estimates that costs to support the Commission for one full year would amount to \$13,800, assuming \$150 per member per meeting, 23 members and four meetings annually. The agency also estimates that two research institutions would apply for licenses to grow industrial hemp at a cost of \$1,500 per license, and that total costs to the agency for staff time, travel and equipment expenses, and lab fees would amount to \$3,000, all paid from the fee fund. The agency indicates that if federal laws were changed to allow hemp to be grown legally and mandated the agency to issue licenses, the potential for dozens of licensees would exist.

The Kansas Bureau of Investigation (KBI) states that the total fiscal effect on the agency in FY 2017 would be approximately \$768,597 in additional expenditures from the State General Fund. Regulatory compliance of licensed growers, including training, equipment, and personnel costs would require that the agency hire at least 1.00 additional Special Agent FTE position. Expenditures related to that agent's salary, benefits, basic computer equipment and software, cell phone, vehicle, and general law enforcement equipment would be expected to amount to \$136,657 in FY 2017. The bill would require random testing of industrial hemp products to ensure compliance with THC levels; however, the testing criteria are not defined nor does the bill define who would do the testing. The agency states that this uncertainty creates a situation where every marijuana or hemp sample collected in Kansas would need to be tested. The agency expects that degree of testing would require an additional 5.00 Forensic Scientists FTE positions. The salary, benefits, basic computer equipment and software for each FTE would cost

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approximately \$67,388, for a total of \$336,940. The agency estimates that new method development and specialized startup equipment and supplies would cost \$50,000, and the purchase of additional analytical instrumentation for the laboratory would cost \$245,000. While the agency would be required to perform state and national criminal history records checks on applicants for licensure, a fee established by the Commission and paid by the applicant, could be charged, resulting in no fiscal effect on the agency. Any fiscal effect associated with HB 2634 is not reflected in *The FY 2017 Governor's Budget Report*.

Sincerely,

A handwritten signature in black ink, appearing to read "Shawn Sullivan", with a horizontal line extending to the right.

Shawn Sullivan,
Director of the Budget

cc: Justin Law, Agriculture
Shelia Sawyer-Tyler, KBI
Bob North, Commerce
Kelly Oliver, Board of Regents
Melissa Wangemann, Association of Counties