OFFICE OF FISCAL ANALYSIS

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sHB-5150
AN ACT CONCERNING CANNABIS AND HEMP REGULATION.

OFA Fiscal Note

State Impact:

Agency Affected	Fund-Effect	FY 25 $	FY 26 $
Consumer Protection, Dept.	GF - Potential Cost	394,000	394,000
Attorney General	GF - Potential Cost	113,000	150,000
State Comptroller - Fringe Benefits[1]	GF - Potential Cost	167,000	183,000
Department of Revenue Services	Various - Potential Revenue Gain	Less than 100,000	Less than 100,000
Consumer Protection, Dept.	Consumer Protection Enforcement Account - Revenue Gain	See Below	See Below
Resources of the General Fund	GF - Potential Revenue Gain	See Below	See Below
Consumer Protection, Dept.	CSEIF - Potential Revenue Gain	Potential	None

Note: GF=General Fund; Various=Various

Municipal Impact:

Municipalities	Effect	FY 25 $	FY 26 $
Various Municipalities	Potential Revenue Gain	See Below	See Below
Various Municipalities	Potential Cost	See Below	See Below

[1]The fringe benefit costs for most state employees are budgeted centrally in accounts administered by the Comptroller. The estimated active employee fringe benefit cost associated with most personnel changes is 41.25% of payroll in FY 25.

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Reviewer: PR

Explanation

The bill makes various changes to the laws governing cannabis, hemp, and medical marijuana resulting in the costs and revenue gains described below.

Sections 5 – 8, 17, 21 and 24 result in a potential revenue gain to the Cannabis Social Equity and Innovation Fund by:

(1) allowing certain social equity cultivator applicants partnering with hemp producers to apply for either a cultivator or micro-cultivator license that allows cultivation outside a disproportionately impacted area. The bill requires a cultivator application to pay a $3 million fee or the micro-cultivator to pay a $500,000 fee unless the applicant received a provisional license. Applicants may apply between July 1, 2024 and March 31, 2025, which limits any revenue impact to FY 25.

(2) allowing social equity applicants for a cultivator license to apply instead for a micro-cultivator license. The bill requires the applicant to pay (i) a $500,000 application fee and (ii) a $500,000 conversion fee. Applicants may apply between July 1, 2024 and December 31, 2024, which limits any revenue impact to FY 25.

(3) allowing certain hemp manufacturers to obtain a product manufacturer license. The bill requires the applicant to pay a $25,000 application fee. Applicants may apply between July 1, 2024 and December 31, 2024, which limits any revenue impact to FY 25.

As these provisions generally provide expanded access for qualified social equity applicants and hemp manufacturers to develop businesses, it is anticipated that more businesses may apply and pay the fee for licensure as permitted under the bill. The actual revenue gain will be dependent upon the number of qualified applicants and the type of licensure they are seeking.

Based on information from the Department of Consumer Protection and Social Equity Council (SEC), there are currently 13 cultivator licensees (1 active; 12 provisional) and 6 micro-cultivators (1 active; 5 provisional). Fourteen cultivator applicants approved by the SEC have yet to pay the $3 million provisional license fee and therefore may reapply for a micro-cultivator license under this bill. Additionally, there are currently 49 hemp manufacturers who have been licensed prior to January 1, 2022.

Sections 9-10 and 31 assess a fee of fifty cents on each infused beverage container and require the fees to be deposited into the Consumer Protection Enforcement Account[2] resulting in a revenue gain to the account dependent on the number of infused beverages sold.

This section also expands CUTPA enforcement by the Office of the Attorney General to include the unauthorized sale of (cannabis) infused beverages. It is anticipated that the OAG could require at least one Assistant Attorney General and one Investigator position as a result. The total annualized cost of these positions in FY 25 would be less than $212,000.

Sections 11 and 27 allow municipalities to (1) prohibit certain businesses from operating, and (2) apply for a court order to remove certain merchandise from stores that violate provisions related to the delivery of cannabis, medical marijuana, or hemp. These sections also permit (1) civil fines up to $30,000 for each violation committed, and (2) civil fines up to $10,000 for anyone who knowingly makes commercial areas available for use in these violations.

This results in a potential cost to municipalities beginning in FY 25 for legal costs. This potential cost may offset by a potential revenue gain to municipalities for the collection of civil fines. The civil fines collected

[2]Per section 21a-8a of the Connecticut General Statutes, this account funds positions dedicated to the enhanced enforcement of DCP licensing laws and regulations.

are first paid to the municipality to reimburse for legal costs. Half of the remainder is then paid to the municipality.

Section 11 also results in a potential revenue gain to the state to the extent civil penalties are imposed.[3]

Sections 13 and 22 allows a product packager to expand its authorized activities to include a product manufacturer if certain conditions are met and a $30,000 application fee is paid resulting in a potential revenue gain to the state to the extent these applications are received. There are currently seven provisional product manufacturer licenses issued and seven provisional product packager licenses issued in the state.

Sections 7, 17, 19, 24 allows the relocation of a dispensary or hybrid retailer and the sale of seedlings by a micro-cultivator resulting in a potential cost to the Department of Consumer Protection (DCP) and the State Comptroller. To the extent numerous relocation requests are submitted[4] and the sale of seedlings generates a significant number of complaints which result in investigations[5], DCP may have to hire up to three additional positions[6] for a salary and other expenses cost of $394,000 per year, along with associated fringe benefit costs of $121,000 per year.

These sections also result in a state and municipal tax revenue gain by allowing the sale of cannabis seedlings. The bill limits sales to only micro-cultivator establishments. The revenue gain is therefore anticipated to be less than $100,000 annually for the state and less than $50,000 annually for various municipalities in total from applicable state

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[3]Income from civil penalties must first be paid to the municipality to reimburse it for the costs of instituting the action. If there is a remainder, half is paid to the municipality and half is paid to the state treasurer to deposit into the General Fund.

[4]There are currently 33 licensed hybrid and medical dispensaries in the state, but the number is likely to increase. Relocation requests are labor intensive for DCP, and any rejection will likely result in appeals, requiring legal intervention.

[5]Currently, no live cannabis or hemp plants are permitted for retail sale in the state which results in additional oversight for DCP. Violations will require swift inspections to ensure product safety.

[6] The positions include a drug control agent, program manager, and staff attorney.

and local taxes.

The Out Years

The annualized ongoing fiscal impact identified above would continue into the future subject to the number of violations, inflation, applications, and employee wage increases. The impact to the Cannabis Social Equity and Innovation Fund noted above is limited to FY 25 only.