



NORTH CAROLINA GENERAL ASSEMBLY

2025 Session

Legislative Fiscal Note

Short Title: Regulate Hemp-Derived Consumables.
Bill Number: House Bill 328 (Fourth Edition)
Sponsor(s):

SUMMARY TABLE

FISCAL IMPACT OF H.B. 328, V.4 (\$ in millions)					
	<u>FY 2025-26</u>	<u>FY 2026-27</u>	<u>FY 2027-28</u>	<u>FY 2028-29</u>	<u>FY 2029-30</u>
State Impact					
General Fund Revenue	-	17.3	19.0	20.9	23.0
Less Expenditures	11.9	5.4	5.4	5.6	5.7
General Fund Impact	(11.9)	11.9	13.6	15.3	17.3
NET STATE IMPACT	Partial Estimate Available - Refer to Fiscal Analysis section				
STATE POSITIONS	43.0	43.0	43.0	43.0	43.0
TECHNICAL CONSIDERATIONS:	See Technical Considerations Section				

FISCAL IMPACT SUMMARY

Section 1 of this bill provides for regulation of the manufacture, distribution, and sale of hemp-derived consumable products (HDCPs) in North Carolina and is the only bill section with an anticipated fiscal impact. The estimated recurring costs to the Division of Alcohol Law Enforcement (ALE) for regulating the HDCP industry and enforcing HDCP regulations is \$5.5 million each year, on average. ALE is also expected to incur \$11.9 million in non-recurring start-up costs in FY 2025-26. The HDCP regulatory requirements in this bill take effect on July 1, 2026. As such, ALE will begin issuing HDCP licenses and collecting the associated fee revenue in FY 2026-27. However, this analysis assumes that ALE will incur partial-year recurring costs plus non-recurring costs beginning in the fiscal year prior (FY 2025-26) as it prepares to be operational for HDCP regulation and enforcement by July 1, 2026. In each year covered by this fiscal analysis except the first, the licensure fees collected by ALE are expected to sufficiently cover the division's regulatory and enforcement expenses while also providing added revenue for ALE.



Table 1. Summary of PCS Total Costs and Revenues

	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	FY 2029-30
Costs	\$ 11,873,469	\$ 5,360,059	\$ 5,377,425	\$ 5,593,395	\$ 5,740,055
Regulatory Staff & Office Expenses	\$ 845,545	\$ 1,256,441	\$ 1,303,024	\$ 1,344,986	\$1,381,937
License Application Development	\$3,000,000	-	-	-	-
HDCP Testing	-	\$625,000	\$625,000	\$625,000	\$625,000
Enforcement Staff	\$ 5,027,925	\$ 3,478,618	\$ 3,449,401	\$ 3,623,409	\$ 3,733,118
HDCP Tracking Software	\$3,000,000	-	-	-	-
Revenues	\$-	\$17,250,000	\$18,975,000	\$20,872,500	\$22,959,750
Licensing Fees	\$-	\$17,250,000	\$18,975,000	\$20,872,500	\$22,959,750
Net	\$(11,873,469)	\$11,889,941	\$13,597,575	\$15,279,105	\$17,219,695

FISCAL ANALYSIS

Section 1

This section of the bill amends the General Statutes by adding a new Chapter 18D to regulate the manufacture, distribution, and sale of HDCPs in the State and to establish ALE as the regulating and enforcing entity for the provisions of the new chapter.

Licensing Fees

The bill requires affected entities to obtain and annually renew a license from ALE according to the following schedules:

Table 2. HDCP Initial Licensure Fees

	Fee Amount
Manufacturers	\$25,000
Distributors	\$5,000
Retail Sellers	\$500

Table 3. HDCP Annual License Renewal Fees

	Fee Amount
Manufacturers	\$10,000
Distributors	\$1,500
Retail Sellers	Equivalent to initial licensure fee

Entities seeking to engage in a combination of manufacturing, distributing, and/or selling HDCPs must only obtain and maintain a single license. The fee for that license is equal to the fee prescribed for the activity conducted by the business that carries the highest fee amount. For

example, a business that manufactures and distributes HDCPs would pay \$25,000 to obtain its initial license and \$10,000 to renew that license each year.

All licensing fees remit to ALE to cover costs associated with the regulation and enforcement of the provisions in the proposed Chapter 18D.

Licensing Revenue

The bill requires HDCP manufacturing, distribution, and/or sales entities to obtain and maintain valid licenses to conduct HDCP-related business in the State. Because the State does not currently identify HDCP-related businesses, a complete projection of revenue collections from fees generated by this bill's licensing requirements is not possible. Estimates from ALE data and past analyses provide a basis for identifying a partial pool of entities that may be subject to the provisions of this bill.

While HDCP manufacturers and distributors are subject to the most substantial fees under this proposed bill, there is no available data on how many such entities operate in the State, nor sufficient proximate data to use for reliable estimates. **As such, Fiscal Research is only able to provide partial estimates for licensing revenue likely to be generated by retail entities under this legislation. Since no estimates are included for manufacturer or distributor licensing revenue, the provided revenue collection estimates are more likely to be understated.**

Assumed Eligible Entity Population

Fiscal Research estimates from 2024 project that there are approximately 1,900 registered tobacco and vape retail locations across the State, and approximately 17,900 other retailers registered as relevant entities such as grocery and convenience stores, or pharmacies. Assuming that HDCPs are sold at most of these registered retailers, there are an estimated 19,800 (1,900 + 17,900) known entities in the State which will likely be subject to the provisions of this bill. Estimates also suggest that there could be anywhere from 1,400 to 5,000 additional unregistered HDCP retailers across the state. Adding the median amount (3,200) of these potential unregistered entities to the pool of likely known entities generates a total possible eligible entity population of 23,000 (19,800 + 3,200).

Altogether, this presents a possible sample of more than 23,000 retail establishments across the State which *may* be relevant for and subject to HDCP licensing by ALE. Of note, it is possible that some retail entities considered in this sample may also operate as manufacturers and/or distributors who would therefore be subject to higher licensing fees. However, there is no data available to identify entities that perform multiple licensed functions, and so estimates are derived based on potential retail licensing alone.

Table 4 below outlines the potential revenues that may be generated by HDCP retail licensing beginning in FY 2026-27 when licensing requirements begin. A 10% growth rate is applied to the number of licensed establishments in each year.



Table 4. Projected Revenue from HDCP Retail Establishment Licensing

	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	FY 2029-30
# of Establishments	N/A	23,000	25,300	27,830	30,613
Fee Amount*	N/A	\$500	\$500	\$500	\$500
Total Revenue	N/A	\$11,500,000	\$12,650,000	\$13,915,000	\$15,306,500

**Retail license renewals carry the same fee as initial licenses.*

Additional revenue may be generated by these establishments also selling HDCP products online. Table 5 below outlines potential additional revenue if 50% of all retail establishments are also licensed to sell HDCP products through at least one online avenue.

Table 5. Projected Revenue from HDCP Online Retailer Licensing

	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	FY 2029-30
# of Online Retail Sites	N/A	11,500	12,650	13,915	15,307
Fee Amount*	N/A	\$500	\$500	\$500	\$500
Total Online Revenue	N/A	\$5,750,000	\$6,325,000	\$6,957,500	\$7,653,250

**Retail license renewals carry the same fee as initial licenses.*

Based on the assumed number of retail entities selling HDCP both online and via onsite locations, **ALE can be expected to collect a total of more than \$80 million in licensing revenues over the next five fiscal years, or approximately \$20 million each year beginning in FY 2026-27.**

Table 6. Total HDCP Licensing Projected Revenue

	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	FY 2029-30
# of Licenses	N/A	34,500	37,950	41,745	45,920
Fee Amount*	N/A	\$250	\$250	\$250	\$250
Total Revenue	N/A	\$17,250,000	\$18,975,000	\$20,872,500	\$22,959,750

**Retail license renewals carry the same fee as initial licenses.*

Licensing Costs

This bill requires ALE to administer all licensing functions of Chapter 18D to include developing an online HDCP license application tool and processing and issuing initial license applications along with annual renewals. ALE does not currently perform licensing functions to a magnitude comparable to what is likely necessary for HDCP regulation. As such, the division anticipates needing to establish a new Permitting Section and Legal Section to execute the regulatory requirements of this bill. These two sections would consist of 8 new non-sworn Full Time Equivalent (FTE) positions and carry a recurring cost of approximately \$1.2 million for salary, benefits, operational expenses, and additional office space plus a one-time non-recurring cost of approximately \$166,000 for equipment and other start-up expenses. This analysis assumes that ALE will hire these positions on January 1, 2026 (during FY 2025-26) prior to licensing and regulatory requirements taking effect on July 1, 2026 (during FY 2026-27). As such, only partial recurring positions costs are included in expenditure estimates for FY 2025-26. Further, recurring

position costs are adjusted for inflation in each year covered by this analysis (see Fiscal Impact Summary).

ALE reports needing the following new FTE positions to regulate the provisions proposed in this bill:

Table 7. Position Costs for ALE Regulatory Staff

Position	# of FTE	Year 1 Non-Recurring Costs	Annual Recurring Costs
Administrative Specialist II	3	\$68,512	\$251,845
Program Supervisor I	1	\$22,837	\$99,778
Attorney	3	\$57,639	\$499,187
Supervising Attorney	1	\$16,566	\$208,871
Office Space for Added Staff	-	-	\$150,000
Total	8	\$165,554	\$1,209,981

ALE also estimates a one-time cost of \$3 million for expenses associated with developing the online licensing application system.

Civil Penalties

The bill authorizes ALE to impose civil penalties for violations of provisions in the proposed chapter. Sales-related violations are subject to the penalties outlined in Table 8 below.

Table 8. Civil Penalties for Sales-Related Violations of Chapter 18D

Violation	Penalty
First	Up to \$500
Second within 3 years of the first	Up to \$750
Third within 3 years of the first	Up to \$1,000 plus a 1-year license suspension*
Fourth or subsequent within 3 years of the first	Up to \$2,000 plus license revocation

Violations related to HDCP manufacture, distribution, testing, packaging, and/or product specifications are subject to the penalties outlined in Table 9 below. For these violations, ALE may choose to take any of the following actions instead of imposing the civil penalties:

- Suspend the entity's license for up to 3 years
- Revoke the entity's license
- Impose conditions on the entity's operating hours

Table 9. Civil Penalties for Non-Sales Related Violations of Chapter 18D

Violation	Penalty
First	Up to \$1,000
Second within 3 years of the first	Up to \$5,000
Third within 3 years of the first	Up to \$7,500
Fourth or subsequent within 3 years of the first	N/A

Civil Penalty Revenue

The clear proceeds of any civil penalty collected by ALE pursuant to the provisions of this bill would be remitted to the Civil Penalty and Forfeiture Fund (CPFF) in accordance with G.S. 115C-457.2. Since HDCP-related business is not currently subject to State regulation, there is no historic data available to use as a basis for estimating potential civil penalty remittances which may result from this legislation. As such, this analysis does not estimate civil penalty remittances.

HDCP Testing

The bill also establishes HDCP testing standards and requirements for HDCP manufacturers. Under this section, ALE must “maintain and post on its website a list of independent testing laboratories that meet the qualifications” for testing HDCP. The division is also required to develop a process and application for determining which independent testing laboratories meet the necessary qualifications.

HDCP Testing Costs

In any instance in which criminal penalties are imposed on an entity for knowingly manufacturing, distributing, or selling HDCP that does not meet legal requirements, the offending entity must pay ALE for the costs of testing the HDCP which resulted in the violation(s). The current cost for testing HDCPs is \$250 per sample. ALE anticipates collecting 5-10 samples from each entity that it inspects. While total testing costs incurred by ALE will vary based on the number of entities inspected and samples collected, potential cost scenarios can be explored using some assumptions.

ALE reports that since July 1, 2024, HDCP testing activity resulted in 95% of samples containing levels of Delta 9 higher than the legal limit. Under this proposed legislation, it is possible that fewer tested samples will contain illegal levels of the relevant regulated substances, but it is not possible to know what share of samples will or will not pass testing standards going forward.

ALE estimates that it will conduct approximately 2,500 HDCP-related inspections each year, with inspections focused on entities who are the subject of complaints or intelligence gathering. The below scenarios suggest that ALE could potentially incur \$125,000 to \$1.6 million in unreimbursed annual testing costs.

If ALE collected and tested 5 samples from all inspected entities in a given year, annual testing costs would amount to \$3.125 million.

- 2,500 tested retailers x 5 samples each = 12,500 samples tested x \$250 cost per test = \$3.125 million

Scenario 1

If the share of tests resulting in violations remains consistent at 95%, then under this scenario, violators would reimburse approximately \$3 million of this cost to ALE while the division incurred the remaining \$125,000 in testing expenses.



Scenario 2

If the share of tests resulting in violations is 80%, then under this scenario, violators would reimburse approximately \$2.5 million of this cost to ALE while the division incurred the remaining \$625,000 in testing expenses.

Scenario 3

If the share of tests resulting in violations is 50%, then under this scenario, violators would reimburse approximately \$1.56 million of this cost to ALE while the division also incurred \$1.56 million in testing expenses.

Fiscal Research employs *Scenario 2* for purposes of estimating likely testing costs for ALE in the Fiscal Impact Summary section of this memo.

Enforcement

ALE is charged with enforcing the provisions set forth in this bill, including conducting random, unannounced compliance inspections at locations where HDCPs are sold or distributed. Existing ALE agents already conduct such inspections on ABC Commission permittees, and those agents are expected to also participate in inspections and regulation enforcement for new HDCP permittees. However, ALE estimates that it will require approximately 35 additional sworn law enforcement personnel to fully enforce new HDCP laws. These new positions will carry a recurring cost of approximately \$3.3 million for salary, benefits, and operational expenses plus a one-time non-recurring cost of approximately \$3.4 million for equipment and other start-up expenses. This analysis assumes that ALE will hire these positions on January 1, 2026 (during FY 2025-26) prior to licensing and regulatory requirements taking effect on July 1, 2026 (during FY 2026-27). As such, only partial recurring positions costs are included in expenditure estimates for FY 2025-26. Further, recurring position costs are adjusted for inflation in each year covered by this analysis (see Fiscal Impact Summary).

ALE reports needing the following new FTE positions to enforce the provisions proposed in this bill:

Table 10. Position Costs for ALE Enforcement Staff

Position	# of FTE	Year 1 Non-Recurring Costs	Annual Salary & Benefit Costs
Special Agent	27	\$2,594,257	\$2,192,203
Special Agent in Charge (SAC)	1	\$96,011	\$160,239
Assistant Special Agent in Charge (ASAC)	7	\$670,064	\$982,742
Total	35	\$3,360,332	\$3,335,185

If staffed with these additional FTE, the division anticipates being able to conduct 2,500 HDCP-related establishment inspections per year, which is approximately 1.5 inspections per new FTE each week. Combined with existing ALE capacity, these additional staff would likely be more than sufficient to enforce the provisions of this bill across the State.

The bill also requires ALE to “establish, maintain, and control a computer software tracking system that traces hemp from seed to sale” as a HDCP. The system must allow 24-hour access to real time data from all HDCP production and testing facilities for any State or local law enforcement agency in North Carolina. **ALE estimates a one-time cost of \$3 million associated with developing such a tracking system.**

TECHNICAL CONSIDERATIONS

This bill does not provide any State General Fund appropriations for the functions that it establishes but rather utilizes revenue generated by HDCP licensing fees to cover associated costs. Because revenue collections do not begin until July 1, 2026, if the ALE incurs costs in FY 2025-26 in preparation for being operational on these provisions by July 1, 2026 – which this analysis assumes it does – then the division will be responsible for covering those start-up costs out of its existing budget capacity unless additional appropriations are provided by the General Assembly.

DATA SOURCES

Department of Public Safety, Alcohol Law Enforcement Division; Office of the Secretary of State; Department of Revenue historical data

LEGISLATIVE FISCAL NOTE – PURPOSE AND LIMITATIONS

This document is an official fiscal analysis prepared pursuant to Chapter 120 of the General Statutes and rules adopted by the Senate and House of Representatives. The estimates in this analysis are based on the data, assumptions, and methodology described in the Fiscal Analysis section of this document. This document only addresses sections of the bill that have projected direct fiscal impacts on State or local governments and does not address sections that have no projected fiscal impacts.

CONTACT INFORMATION

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