September 16, 2020 • CA IHAB Meeting

3. Brief update on proposed state legislation for industrial hemp

I. AB 2028

A. Brought together:
   1. Food and Ag. Code amendments to hemp program
   2. Former AB 228
      a. Hemp manufacturing under CA Dept of Public Health (CDPH)

B. Pandemic resulted in truncated session
   1. Combined legislation not taken up until too late in session (mid-August)
   2. Session ended August 31
   3. Died in Senate
      a. Timing rules not waived
      b. Same result as numerous other bills
   4. Thanks go out to CDFA and authors Aguiar-Curry and Wilk for their support

C. Food and Ag. Code proposed amendments
   1. Alignment with US Dept of Ag Interim Final Rule
      a. Measurement of uncertainty – lab testing
      b. Farmer reporting to Farm Service Agency of data (location, acreage, etc.)
   2. Commissioner inspection and enforcement authority
   3. Other technical amendments
D. **Hemp Manufacturing Program**

1. CBD/Hemp extract not an adulterant or prohibited (CDPH 7/18 FAQ)
   a. Allowed in food, beverages, dietary supplements, cosmetics and pet food

2. Consumer safety paramount


4. CDPH – regulatory oversight (extension of FDA in CA) under the Sherman Act
   a. Essentially negotiating with FDA
      i. Would have effectively set a national standard
   b. Food processing facility licenses
   c. Labeling standards on par with other states
   d. Same testing as cannabis
      i. But not same protocols or labs required
   e. Finished products below 0.3% THC
   f. Rulemaking for:
      i. Any age limits
      ii. Serving size caps
      iii. In process extract THC limits

E. Authors committed to reintroducing next year

1. More time to refine and negotiate; and to

2. Work on smokable hemp product regulatory structure
### Industrial Hemp Program

**Revenue Summary**

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Registration Fee Collected</th>
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<tbody>
<tr>
<td>2018/2019</td>
<td>$259,200</td>
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<tr>
<td>2019/2020</td>
<td>$576,000</td>
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<tr>
<td>2020/2021</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>$976,500</strong></td>
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Industrial Hemp Advisory Board

September 16, 2020
### Industrial Hemp Program

#### Budget Summary

<table>
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<tr>
<th></th>
<th>PPPPY FY 2016/17 As of 9/1/20</th>
<th>PPPPY FY 2017/18 As of 9/1/20</th>
<th>PPPY FY 2018/19 As of 9/1/20</th>
<th>PY FY 2019/20 As of 9/1/20</th>
<th>*CY FY 2020/21 Projection</th>
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<td><strong>207,663</strong></td>
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<td>0</td>
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<td>1,454,485</td>
<td>1,016,425</td>
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<td><strong>TOTAL OPER EXP/EQUIP</strong></td>
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<td><strong>-24,766</strong></td>
<td><strong>0</strong></td>
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<td><strong>20,802</strong></td>
<td><strong>107,455</strong></td>
<td><strong>449,992</strong></td>
<td><strong>2,105,845</strong></td>
<td><strong>1,812,628</strong></td>
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Industrial Hemp Advisory Board

September 16, 2020
## Industrial Hemp Program
### Fund Condition

<table>
<thead>
<tr>
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<td>($128,257)</td>
<td>($319,049)</td>
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<td>($3,121,753)</td>
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<tr>
<td>Registration Fees</td>
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<td>(497)</td>
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<tr>
<td><strong>TOTAL EXPENDITURES</strong></td>
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<td>($1,849,126)</td>
<td>($3,121,753)</td>
<td>($4,361,796)</td>
<td>($5,683,280)</td>
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</tbody>
</table>
CDFA INDUSTRIAL HEMP ADVISORY BOARD

REGISTRATION FEE AMENDMENT TASK FORCE
WHY ARE WE OPERATING IN A DEFICIT?

- Plain and simple we are not gathering enough revenue through registration fees to cover actual program costs!
- The program is estimated to be in a deficit of $3,121,753 by the end of FY 2020/2021!
- $576,000 was collected through registration fees in FY 2019/2020.
- Estimated total costs for FY 2020/2021 is $1,812,628.
  - CDFA OPERATING COSTS - $796,203.
  - COUNTY AGREEMENTS - $1,016,425.
HOW MUCH DID WE SPEND PER REGISTRATION IN FY 2019/2020?

- 636 REGISTRATIONS
- TOTAL PROGRAM COST - $2,105,845
- TOTAL COST PER REGISTRATION - $3,311
**HOW DO WE COMPARE TO OTHER HEMP PROGRAMS?**

<table>
<thead>
<tr>
<th>State</th>
<th>Fee Structure</th>
<th>2019 Registration</th>
<th>Fees Collected</th>
<th>Revenue</th>
<th>Expenditures</th>
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<td>California</td>
<td>Registration Fee</td>
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<td>636</td>
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<td>$576,000</td>
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<td>Outdoor Grow Fee (per acre)</td>
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<td></td>
<td>Indoor Grow Fee (per sq ft)</td>
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<td>Colorado</td>
<td>Grower Application Fee</td>
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<td>216</td>
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<td>$186,262</td>
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<td>Seed Producer Application Fee</td>
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<td>Outdoor Grow Fee (per acre)</td>
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<td></td>
<td>Indoor Grow Fee (per sq ft)</td>
<td>$0.00033</td>
<td>1,944,492</td>
<td>$642</td>
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<tr>
<td>Nevada</td>
<td>Grower Application Fee</td>
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<td>216</td>
<td>$108,000</td>
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<td></td>
<td>Seed Producer Application Fee</td>
<td>$100.00</td>
<td>47</td>
<td>$4,700</td>
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<tr>
<td></td>
<td>Outdoor Grow Fee (per acre)</td>
<td>$5.00</td>
<td>14,584</td>
<td>$72,920</td>
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<tr>
<td></td>
<td>Indoor Grow Fee (per sq ft)</td>
<td>$0.00033</td>
<td>1,944,492</td>
<td>$642</td>
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<tr>
<td>Oregon*</td>
<td>Grower Registration Fee</td>
<td>$1,300.00</td>
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*Fee Structure was applicable until December 2019.
** Fee structure has been operative since January 2020, the number of growers/producer are from 2020 Registration.
WHAT ARE OUR OPTIONS FOR AMENDING THE REGISTRATION FEE?

1.) REGISTRATION FEE INCREASE (FROM $1,200 TO $5,000)
   • THIS WILL RESULT IN A BUDGET SURPLUS BY THE END OF FY 2024/2025.

2.) GROSS REVENUE FEE STRUCTURE
   • MAY WORK BUT WE DO NOT HAVE ENOUGH DATA TO PROPOSE THIS

3.) ACREAGE FEE ($145)
   • THIS WILL RESULT IN A BUDGET SURPLUS BY THE END OF FY 2024/2025.

4.) REGISTRATION AMENDMENT FEE ($75 PER AMENDMENT)
   • AN AVERAGE OF 3 AMENDMENTS PER REGISTRANT
## WHAT DO WE PROPOSE?

<table>
<thead>
<tr>
<th>FEE</th>
<th>RATE</th>
<th>ESTIMATED REVENUE</th>
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<tbody>
<tr>
<td>REGISTRATION</td>
<td>$1,200 PER REGISTRATION</td>
<td>$660,000 FOR 550 REGISTRATIONS</td>
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<tr>
<td>ACREAGE</td>
<td>$115 PER ACRE</td>
<td>$2,012,500 FOR 17,500 ACRES IN FY 2021/22</td>
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<td></td>
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<td>20,000 ACRES AFTER FY 2021/22</td>
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<td>REGISTRATION AMENDMENT</td>
<td>$75 PER AMENDMENT (EXCEPT FOR AMENDMENTS TO CHANGE CONTACT INFORMATION)</td>
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<td>TOTAL</td>
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<td>$2,471,875 IN FY 2021/22</td>
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<td></td>
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<td>$2,721,875 AFTER FY 2021/22</td>
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WHEN WILL THE PROGRAM HAVE A SURPLUS?

<table>
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<tbody>
<tr>
<td>BEGINNING RESERVE BALANCE</td>
<td>($1,849,126)</td>
<td>($3,121,753)</td>
<td>($2,549,921)</td>
<td>($1,809,530)</td>
<td>($1,026,848)</td>
<td>($244,166)</td>
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<tr>
<td>Registration Fees</td>
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<td>EXPENDITURES</td>
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<td>Personnel Services</td>
<td>674,747</td>
<td>762,161</td>
<td>843,603</td>
<td>801,312</td>
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</tr>
<tr>
<td>Operating Exp &amp; Equipment</td>
<td>121,456</td>
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<td>121,456</td>
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<tr>
<td>County Agreements</td>
<td>1,016,425</td>
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<td>TOTAL EXPENDITURES</td>
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<td>$1,900,042</td>
<td>$1,981,484</td>
<td>$1,939,193</td>
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<td>($1,026,848)</td>
<td>($244,166)</td>
<td>$538,516</td>
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</table>
WHAT DO WE DO TO MAKE THIS MORE EQUITABLE?

• GROSS REVENUE FEE STRUCTURE MAY WORK BUT WE DO NOT HAVE ENOUGH DATA
  • GATHER GROSS REVENUE DATA AT REGISTRATION
  • SET A BASE APPLICATION FEE PLUS GROSS REVENUE FEE

• SUGGESTIONS TO REDUCE PROGRAM EXPENDITURES

• REEVALUATE THE FEE STRUCTURE YEARLY AS THE MARKET EVOLVES
September 15, 2020

I would like you to inform the people at the hemp meeting about what happened in Lake County.

-In one situation, a state registered hemp grower maintained that he was growing hemp until it was time for the pre-harvest. Then he said it was cannabis and the county had no authority to take samples at that time. The sample were taken anyway and it was confirmed that it was cannabis based on the THC results. He used this ruse to keep the CDFW, County Code Enforcement and use off the property until that time. He also said that someone from his organization was supposed to take it off the State Registration, but it never happened. By the time the sample results came back, the crop was already harvested and off the property, on to the black market.

-in this situation, the state registered hemp grower was harvesting a mature crop without letting the county know in advance. There was no pre-harvest sampling and no harvest notification. The county observed this at random. The Ag Commissioner involved the Sheriff, Code Enforcement and CDFW in stopping the harvest at about 80% completed. The grower was hiding in his office and refused to come out. Samples were taken of the 20% of the plants that were still in the ground and of the 80% of the crop in the barn. The grower was told to NOT harvest the remaining crop in the field until the results came back. 7 days later, the results came back as 9% THC, but the sample results didn’t matter because the grower wasn’t present (legal requirement) during the sampling of the live plants in the field (because he was hiding in his office) and the samples from the plants in the barn were not legal because there was no official state sampling protocol for cut hemp plants. He ended up harvesting the remaining 20% and sold all of it on the black market by the time we got the sample results. There was a crop destruction order where he switched the cut cannabis plants that were just harvested with last season’s unsold hemp crop (which he said was this year’s crop).

Contact me if you need any further clarification.

Steve Hajik
Lake County Agricultural Commissioner & Sealer