



NORTH CAROLINA GENERAL ASSEMBLY

2025 Session

Legislative Fiscal Note

Short Title: Regulate Kratom Products.
Bill Number: House Bill 468 (Third Edition)
Sponsor(s):

SUMMARY TABLE

FISCAL IMPACT OF H.B. 468, V.3 (\$ 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	-	8.6	9.5	10.4	11.5
Less Expenditures	6.3	3.1	3.1	3.2	3.3
General Fund Impact	(6.3)	5.5	6.4	7.2	8.2
NET STATE IMPACT	Partial Estimate Available - Refer to Fiscal Analysis section				
STATE POSITIONS	25.0	25.0	25.0	25.0	25.0
TECHNICAL CONSIDERATIONS:	See Technical Considerations Section				

FISCAL IMPACT SUMMARY

This bill provides for regulation of the manufacture, distribution, and sale of kratom products in North Carolina and establishes various fees and penalties associated with this regulation. The estimated recurring costs to the Division of Alcohol Law Enforcement (ALE) for regulation and enforcement of the proposed kratom provisions are \$3.2 million each year, on average. ALE is also expected to incur \$5 million in non-recurring start-up costs in FY 2025-26. The kratom product regulatory requirements in this bill take effect on July 1, 2026. As such, ALE will begin issuing kratom product 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 kratom product 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	\$6,278,023	\$3,098,429	\$3,140,992	\$3,234,058	\$3,316,221
Regulatory Staff & Office Expenses	\$626,923	\$908,769	\$940,529	\$969,138	\$994,276
License Application Development	\$3,000,000	-	-	-	-
Kratom Testing	-	\$375,000	\$375,000	\$375,000	\$375,000
Enforcement Staff	\$2,651,100	\$1,814,660	\$1,825,463	\$1,889,920	\$1,946,945
Revenues	\$-	\$8,625,000	\$9,487,500	\$10,436,250	\$11,479,875
Licensing Fees	\$-	\$8,625,000	\$9,487,500	\$10,436,250	\$11,479,875
Net	\$(6,278,023)	\$5,526,571	\$6,346,508	\$7,202,192	\$8,163,654

FISCAL ANALYSIS

Sections 1 and 3 of this bill are expected to have a fiscal impact on the State.

Section 1

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

Civil Penalties

Under Article 1 of the proposed Chapter 18E, ALE is authorized to impose civil penalties for violations of certain Chapter 18E provisions. Sales-related violations are subject to the penalties outlined in Table 2 below.

Table 2. Civil Penalties for Sales-Related Violations of Chapter 18E

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*
<i>*For retail sales only – In lieu of license suspension, ALE may accept a \$3,000 payment from the offending retailer. In lieu of license revocation, ALE may accept a \$3,000 payment and license suspension from the offending retailer. This compromise is not an option for sales violations by kratom producers.</i>	

For violations related to kratom manufacture, distribution, and/or testing, ALE may choose to take one or more of the following actions:

- Suspend the entity's license for up to 3 years

- Revoke the entity's license
- Impose conditions on the entity's operating hours
- Impose civil penalties according to the schedule outlined in Table 3 below

Table 3. Civil Penalties for Non-Sales Related Violations of Chapter 18E

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
<i>In lieu of license suspension, ALE may accept a \$8,000 payment from the offending entity. In lieu of license revocation, ALE may accept a \$8,000 payment and license suspension from the offending retailer</i>	

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 kratom-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.

Licensing Fees

Article 2 of the proposed Chapter 18E requires affected entities to obtain and annually renew a license from ALE according to the following schedules:

Table 4. Kratom Product Initial Licensure Fees

	Fee Amount	
	<i>Prior Year Gross Income >= \$100,000</i>	<i>Prior Year Gross Income < \$100,000</i>
Manufacturers	\$15,000	\$1,000
Distributors	\$2,500	\$750
Retail Sellers	\$500 per location or website, but no more than \$5,000 for a single entity	

Table 5. Kratom Product Annual License Renewal Fees

	Fee Amount
Manufacturers	\$5,000
Distributors	\$750
Retail Sellers	Equivalent to initial licensure fee

Entities seeking to engage in a combination of manufacturing, distributing, and/or selling kratom products 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 kratom products would pay \$15,000 to obtain its initial license and \$5,000 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 18E.

Licensing Revenue

The bill requires kratom product manufacturing, distribution, and/or sales entities to obtain and maintain valid licenses to conduct business in the State. Because the State does not currently identify businesses dealing in kratom product, a complete projection of revenue collections from fees generated by this bill's licensing requirements is not possible.

While kratom product 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 collection estimates provided likely understate actual revenues that will be generated as a result of this bill's licensing provisions.**

Assumed Eligible Retail Entity Population

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, providing a basis for partial revenue projections. There are many entities who would likely sell kratom products that are already registered with the State as retailers of other goods. It is also likely that there are entities who would sell kratom products but are not already registered with the State. The section below estimates the size of these pools of potential kratom product retailers to derive a possible population of retailers that would be subject to licensing fees under this bill.

Fiscal Research estimates from 2024 suggest 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. Estimates also suggest that there could be anywhere from 1,400 to 5,000 additional unregistered retailers across the state who may sell kratom products. Adding the median amount of these potential unregistered entities to the pool of likely known entities generates a total possible eligible entity population of 23,000.

Figure 1. Potential Kratom Product Retailer Population

1,900 registered tobacco and vape retailers + **17,900** other registered retailers likely to sell kratom products = **19,800** registered likely retailers + **3,200** estimated unregistered retailers = **23,000** potential kratom product retailers in NC

Altogether, this presents a possible sample of more than 23,000 retail establishments across the State which *may* be relevant for and subject to kratom product 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 6 below outlines the potential revenues that may be generated by kratom product retail licensing beginning in FY 2026-27 when licensing requirements begin. A 10% growth rate is applied to the assumed number of licensed establishments in each year.

Table 6. Projected Revenue from Kratom 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	\$250	\$250	\$250	\$250
Total 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.*

Additional revenue may be generated by these and other establishments selling kratom products online. Table 7 below outlines potential additional revenue if 50% of all retail establishments are also licensed to sell kratom products through at least one online avenue.

Table 7. Projected Revenue from Kratom 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	\$250	\$250	\$250	\$250
Total Online Revenue	N/A	\$2,875,000	\$3,162,500	\$3,478,750	\$3,826,625

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

Based on the assumed number of retail entities selling kratom products both online and via onsite locations, **ALE can be expected to collect a total of more than \$40 million in licensing revenues over the next five fiscal years, or \$10 million each year, on average, beginning in FY 2026-27.**

Table 8. Total Kratom Product 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	\$8,625,000	\$9,487,500	\$10,436,250	\$11,479,875

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

Licensing Costs

This bill requires ALE to administer all licensing functions of Chapter 18E to include developing an online kratom product 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 kratom 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 6 new non-sworn Full Time Equivalent (FTE) positions and carry a recurring cost of approximately \$877,000 for salaries, benefits, and additional office space plus a one-time non-recurring cost of approximately

\$189,000 for equipment and other start-up expenses. This analysis assumes that ALE will hire these positions and acquire their associated office space 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 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 9. Position Costs for ALE Regulatory Staff

Position	# of FTE	Year 1 Non-Recurring Costs	Annual Recurring Costs
Administrative Specialist II	3	\$69,039	\$251,845
Program Supervisor I	1	\$23,013	\$99,778
Attorney	1	\$24,213	\$166,396
Supervising Attorney	1	\$72,213	\$208,871
Office Space for Added Staff	-	-	\$150,000
Total	6	\$188,478	\$876,889

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

Kratom Product Testing

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

Kratom Product Testing Costs

In any instance in which civil penalties are imposed on an entity for knowingly manufacturing, distributing, or selling kratom products that do not meet legal requirements, the offending entity must pay ALE for the costs of testing the product which resulted in the violation(s). The current cost for testing kratom products is \$100 per sample. ALE estimates that it will conduct approximately 2,500 kratom-related inspections each year, with inspections focused on entities who are the subject of complaints or intelligence gathering. ALE anticipates collecting 5-10 samples from each entity that it inspects. Total testing costs incurred by ALE will vary based on the number of entities inspected and samples collected.

Because kratom products are currently legal, ALE does not have data to support the share of tested samples that historically violate legal limits. As such, it is not possible to know the share of testing costs that ALE will ultimately be reimbursed for according to the requirements in this bill. If ALE tests 5 samples from 2,500 inspected entities in a given year, total testing cost would equal \$1.25 million (2,500 inspections X 5 samples tested = 12,500 tests X \$100 cost per test =

\$1,250,000). It is unlikely that 100% of testing costs will be reimbursed to ALE, but because most inspections conducted by ALE will be done on an intelligence- or tip-informed basis, it is possible that a majority of costs incurred will be associated with violating entities. **Therefore, this analysis assumes that 70% of testing costs incurred will ultimately be reimbursed, leaving ALE with approximately \$375,000 in unreimbursed testing costs each year.**

Enforcement

ALE is charged with enforcing the provisions set forth in this bill, including conducting random, unannounced compliance inspections at locations where kratom products 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 kratom product-related permittees. However, ALE estimates that it will require approximately 19 additional sworn law enforcement personnel to fully enforce new kratom laws. These new positions will carry a recurring cost of approximately \$1.7 million for salary and benefits costs plus a one-time non-recurring cost of approximately \$1.8 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 Recurring Costs
Special Agent	16	\$1,498,312	\$1,299,083
Special Agent in Charge (SAC)	1	\$94,245	\$160,239
Assistant Special Agent in Charge (ASAC)	2	\$188,460	\$280,784
Total	19	\$1,781,047	\$1,740,106

If staffed with these additional FTE, the division anticipates being able to conduct 2,500 kratom-related establishment inspections per year, which is approximately 2.5 inspections per new FTE each week. Combined with existing ALE capacity, these additional staff would likely be sufficient to enforce the provisions of this bill across the State.

Section 3

This section of the bill requires that any manufacturers or distributors who violate Chapter 18E and are convicted in a criminal case pay a \$600 fee to ALE to cover the costs of any laboratory services used in the associated criminal court proceedings. ALE estimates that laboratory services for testing kratom products cost approximately \$100 per sample tested. Assuming that there are no other costs associated with the relevant laboratory services, the \$600 fee would be sufficient to cover the laboratory costs for approximately six kratom sample tests. **Since ALE also estimates that it will collect at least 5 samples from every entity that it inspects, this fee would likely**

cover the full laboratory costs incurred by ALE for services related to an entity's criminal trial.

Ultimately, because the criminal offenses established in this bill are new, there is no data to indicate how many entities may be charged or convicted as violators of the bill's provisions. As such, it is not possible to determine how many entities will end up paying this fee in a given year, or how much revenue will be generated to cover portions of laboratory costs incurred by ALE.

TECHNICAL CONSIDERATIONS

This bill does not provide any State General Fund appropriations for the functions that it establishes but rather utilizes revenue generated by kratom product 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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