

**ECONOMIC AND FISCAL IMPACT STATEMENT
(REGULATIONS AND ORDERS)**

STD. 399 (REV. 12/2013)

ECONOMIC IMPACT STATEMENT

DEPARTMENT NAME Bureau of Cannabis Control	CONTACT PERSON CJ Croyts-Schooley	EMAIL ADDRESS CJ.Croyts-Schooley@dca.ca.gov	TELEPHONE NUMBER (916)574-8102
DESCRIPTIVE TITLE FROM NOTICE REGISTER OR FORM 400 Medicinal and Adult-Use Cannabis Regulations			NOTICE FILE NUMBER Z

A. ESTIMATED PRIVATE SECTOR COST IMPACTS *Include calculations and assumptions in the rulemaking record.*

1. Check the appropriate box(es) below to indicate whether this regulation:

- | | |
|--|---|
| <input checked="" type="checkbox"/> a. Impacts business and/or employees | <input type="checkbox"/> e. Imposes reporting requirements |
| <input checked="" type="checkbox"/> b. Impacts small businesses | <input type="checkbox"/> f. Imposes prescriptive instead of performance |
| <input checked="" type="checkbox"/> c. Impacts jobs or occupations | <input checked="" type="checkbox"/> g. Impacts individuals |
| <input type="checkbox"/> d. Impacts California competitiveness | <input type="checkbox"/> h. None of the above (Explain below): |

*If any box in Items 1 a through g is checked, complete this Economic Impact Statement.
If box in Item 1.h. is checked, complete the Fiscal Impact Statement as appropriate.*

2. The Bureau of Cannabis Control estimates that the economic impact of this regulation (which includes the fiscal impact) is:
(Agency/Department)

- Below \$10 million
 Between \$10 and \$25 million
 Between \$25 and \$50 million
 Over \$50 million *(If the economic impact is over \$50 million, agencies are required to submit a Standardized Regulatory Impact Assessment as specified in Government Code Section 11346.3(c))*

3. Enter the total number of businesses impacted: See Attached

Describe the types of businesses (Include nonprofits): See Attached

Enter the number or percentage of total businesses impacted that are small businesses: See Attached

4. Enter the number of businesses that will be created: See Attached eliminated: See Attached

Explain: See Attached

5. Indicate the geographic extent of impacts: Statewide
 Local or regional (List areas): _____

6. Enter the number of jobs created: See Attached and eliminated: See Attached

Describe the types of jobs or occupations impacted: See Attached

7. Will the regulation affect the ability of California businesses to compete with other states by making it more costly to produce goods or services here? YES NO

If YES, explain briefly: _____

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ECONOMIC IMPACT STATEMENT (CONTINUED)

CFB

B. ESTIMATED COSTS *Include calculations and assumptions in the rulemaking record.*

1. What are the total statewide dollar costs that businesses and individuals may incur to comply with this regulation over its lifetime? \$ 5.6 billion

a. Initial costs for a small business: \$ 50,000 Annual ongoing costs: \$ 100,000 Years: 10

b. Initial costs for a typical business: \$ 50,000 Annual ongoing costs: \$ 100,000 Years: 10

c. Initial costs for an individual: \$ 0 Annual ongoing costs: \$ 200 Years: 10

d. Describe other economic costs that may occur: See Attached

2. If multiple industries are impacted, enter the share of total costs for each industry: See Attached

3. If the regulation imposes reporting requirements, enter the annual costs a typical business may incur to comply with these requirements. *Include the dollar costs to do programming, record keeping, reporting, and other paperwork, whether or not the paperwork must be submitted.* \$ _____

4. Will this regulation directly impact housing costs? YES NO

If YES, enter the annual dollar cost per housing unit: \$ _____

Number of units: _____

5. Are there comparable Federal regulations? YES NO

Explain the need for State regulation given the existence or absence of Federal regulations: See Attached

Enter any additional costs to businesses and/or individuals that may be due to State - Federal differences: \$ N/A

CFB

C. ESTIMATED BENEFITS *Estimation of the dollar value of benefits is not specifically required by rulemaking law, but encouraged.*

1. Briefly summarize the benefits of the regulation, which may include among others, the health and welfare of California residents, worker safety and the State's environment: See Attached

2. Are the benefits the result of: specific statutory requirements, or goals developed by the agency based on broad statutory authority?

Explain: See Attached

3. What are the total statewide benefits from this regulation over its lifetime? \$ 6 billion

4. Briefly describe any expansion of businesses currently doing business within the State of California that would result from this regulation: See Attached

CFB

D. ALTERNATIVES TO THE REGULATION *Include calculations and assumptions in the rulemaking record. Estimation of the dollar value of benefits is not specifically required by rulemaking law, but encouraged.*

1. List alternatives considered and describe them below. If no alternatives were considered, explain why not: See Attached

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ECONOMIC IMPACT STATEMENT (CONTINUED)

2. Summarize the total statewide costs and benefits from this regulation and each alternative considered:

Regulation: Benefit: \$ 6 billion Cost: \$ 5.6 billion
 Alternative 1: Benefit: \$ 3 billion Cost: \$ 2.8 billion
 Alternative 2: Benefit: \$ 6 billion Cost: \$ 7.2 billion

3. Briefly discuss any quantification issues that are relevant to a comparison of estimated costs and benefits for this regulation or alternatives: See Attached

4. Rulemaking law requires agencies to consider performance standards as an alternative, if a regulation mandates the use of specific technologies or equipment, or prescribes specific actions or procedures. Were performance standards considered to lower compliance costs? YES NO

Explain: The regulations do not mandate the use of specific technologies.

E. MAJOR REGULATIONS *Include calculations and assumptions in the rulemaking record.*

California Environmental Protection Agency (Cal/EPA) boards, offices and departments are required to submit the following (per Health and Safety Code section 57005). Otherwise, skip to E4.

1. Will the estimated costs of this regulation to California business enterprises exceed \$10 million? YES NO

*If YES, complete E2. and E3
If NO, skip to E4*

2. Briefly describe each alternative, or combination of alternatives, for which a cost-effectiveness analysis was performed:

Alternative 1: _____
Alternative 2: _____

(Attach additional pages for other alternatives)

3. For the regulation, and each alternative just described, enter the estimated total cost and overall cost-effectiveness ratio:

Regulation: Total Cost \$ _____ Cost-effectiveness ratio: \$ _____
 Alternative 1: Total Cost \$ _____ Cost-effectiveness ratio: \$ _____
 Alternative 2: Total Cost \$ _____ Cost-effectiveness ratio: \$ _____

4. Will the regulation subject to OAL review have an estimated economic impact to business enterprises and individuals located in or doing business in California exceeding \$50 million in any 12-month period between the date the major regulation is estimated to be filed with the Secretary of State through 12 months after the major regulation is estimated to be fully implemented?

YES NO

If YES, agencies are required to submit a Standardized Regulatory Impact Assessment (SRIA) as specified in Government Code Section 11346.3(c) and to include the SRIA in the Initial Statement of Reasons.

5. Briefly describe the following:

The Increase or decrease of investment in the State: See Attached

The incentive for innovation in products, materials or processes: See Attached

The benefits of the regulations, including, but not limited to, benefits to the health, safety, and welfare of California residents, worker safety, and the state's environment and quality of life, among any other benefits identified by the agency: See Attached

**ECONOMIC AND FISCAL IMPACT STATEMENT
(REGULATIONS AND ORDERS)**

STD. 999 (REV. 12/2013)

FISCAL IMPACT STATEMENT

A. FISCAL EFFECT ON LOCAL GOVERNMENT *Indicate appropriate boxes 1 through 6 and attach calculations and assumptions of fiscal impact for the current year and two subsequent Fiscal Years.*

1. Additional expenditures in the current State Fiscal Year which are reimbursable by the State. (Approximate)
(Pursuant to Section 6 of Article XIII B of the California Constitution and Sections 17500 et seq. of the Government Code).

\$ _____

a. Funding provided in _____
Budget Act of _____ or Chapter _____, Statutes of _____

b. Funding will be requested in the Governor's Budget Act of _____
Fiscal Year: _____

2. Additional expenditures in the current State Fiscal Year which are NOT reimbursable by the State. (Approximate)
(Pursuant to Section 6 of Article XIII B of the California Constitution and Sections 17500 et seq. of the Government Code).

\$ _____

Check reason(s) this regulation is not reimbursable and provide the appropriate information:

a. Implements the Federal mandate contained in _____

b. Implements the court mandate set forth by the _____ Court.

Case of: _____ vs. _____

c. Implements a mandate of the people of this State expressed in their approval of Proposition No. _____

Date of Election: _____

d. Issued only in response to a specific request from affected local entity(s).

Local entity(s) affected: _____

e. Will be fully financed from the fees, revenue, etc. from: _____

Authorized by Section: _____ of the _____ Code;

f. Provides for savings to each affected unit of local government which will, at a minimum, offset any additional costs to each;

g. Creates, eliminates, or changes the penalty for a new crime or infraction contained in _____

3. Annual Savings. (approximate)

\$ _____

4. No additional costs or savings. This regulation makes only technical, non-substantive or clarifying changes to current law regulations.

5. No fiscal impact exists. This regulation does not affect any local entity or program.

6. Other. Explain See Attached

ECONOMIC AND FISCAL IMPACT STATEMENT

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FISCAL IMPACT STATEMENT (CONTINUED)

B. FISCAL EFFECT ON STATE GOVERNMENT *Indicate appropriate boxes 1 through 4 and attach calculations and assumptions of fiscal impact for the current year and two subsequent Fiscal Years.*

1. Additional expenditures in the current State Fiscal Year. (Approximate)

\$ _____

It is anticipated that State agencies will:

a. Absorb these additional costs within their existing budgets and resources.

b. Increase the currently authorized budget level for the _____ Fiscal Year

2. Savings in the current State Fiscal Year. (Approximate)

\$ _____

3. No fiscal impact exists. This regulation does not affect any State agency or program.

4. Other. Explain See Attached

C. FISCAL EFFECT ON FEDERAL FUNDING OF STATE PROGRAMS *Indicate appropriate boxes 1 through 4 and attach calculations and assumptions of fiscal impact for the current year and two subsequent Fiscal Years.*

1. Additional expenditures in the current State Fiscal Year. (Approximate)

\$ _____

2. Savings in the current State Fiscal Year. (Approximate)

\$ _____

3. No fiscal impact exists. This regulation does not affect any federally funded State agency or program.

4. Other. Explain _____

FISCAL OFFICER SIGNATURE

[Signature]

DATE

11/20/17

The signature attests that the agency has completed the STD. 399 according to the instructions in SAM sections 6601-6616, and understands the impacts of the proposed rulemaking. State boards, offices, or departments not under an Agency Secretary must have the form signed by the highest ranking official in the organization.

AGENCY SECRETARY

[Signature]

DATE

11/27/17

Finance approval and signature is required when SAM sections 6601-6616 require completion of Fiscal Impact Statement in the STD. 399.

DEPARTMENT OF FINANCE PROGRAM BUDGET MANAGER

[Signature]

DATE

BUREAU OF CANNABIS CONTROL
Medicinal and Adult-Use Cannabis Regulation
Economic and Fiscal Impact Statement
Standard 399 Attachment

Economic Modeling Method

The Medicinal and Adult-Use Cannabis Regulation and Safety Act (MAUCRSA) legalizes, regulates, and imposes taxes on both legal medicinal and legal adult-use cannabis. The medicinal cannabis industry has been operating in California for many years. Although adult-use cannabis has been adopted by the California voters, the adult-use industry is not currently in operation and will not be until the proposed regulations go into effect. Therefore, there is no existing economic baseline to measure the impact of the proposed regulations against.

To isolate the impact of the proposed regulations on the economy from the impacts of MAUCRSA itself, it was necessary to develop a baseline that included legal adult-use cannabis and taxation but excluded any impact from the proposed regulations. For the purposes of this document, this will be referred to as the “simulated cannabis market baseline.” The economic impacts of the proposed regulations were then analyzed against the simulated cannabis market baseline to compute the calculations for this Form 399.

In summary, the procedure for this analysis was to incorporate the changes to the marketplace step by step. First, based on initial conditions of the existing medicinal cannabis market, the simulated cannabis market baseline, which accounts for the effects of taxation and legal adult-use sale, was created. Next, the impact of the proposed regulations were included into the model and solved for economic aggregates. Finally, the impact of the proposed regulations was assessed by comparing the simulated cannabis market baseline with a scenario that adds the effects of regulations on that baseline.

Economic Impact Statement Responses

A. Estimated Private Sector Cost Impact

A3. The economic analysis indicates that 10,000 businesses will be impacted. These businesses include commercial cannabis cultivators, manufacturers, distributors, retailers, and testing laboratories. The economic analysis indicates that 90% of the impacted businesses will be small businesses. A separate license is required for each business location; hence, businesses impacted may be owned by the same licensee.

A4. The economic analysis indicates that 2,000 new businesses will be created and 3,000 businesses will be eliminated. A large expansion in the testing laboratory sector is expected. This will likely result in an increase of new businesses in that sector, but still relatively few businesses will be engaged in testing. Due to the implementation of regulations to an industry that was previously unregulated, it is possible that some cultivators and retail businesses may not be able to comply with the requirements to participate in the legal market, resulting in the elimination of those businesses. Most of the businesses created and eliminated will be retail businesses.

A6. The economic analysis indicates that 5,000 new jobs will be created and 2,000 jobs will be eliminated for a net gain of 3,000 new jobs. Roughly 500 new jobs are expected to emerge within the laboratory testing sector. There are also likely to be new retail businesses entering the market as the demand and prices for legal cannabis increases resulting in a net increase of roughly 2,500 jobs in the retail sector.

B. Estimated Costs

B.1(d) The cost for an individual is estimated using an average of half a pound of cannabis consumed per year. There is no initial cost for customers. However, it is expected that the increase in costs due to the proposed regulations will result in roughly a \$200 additional annual cost to consumers. The additional costs for businesses of \$50,000 initial costs and \$100,000 of annual costs are expected to be recouped by the businesses from the individual customers. The costs of the regulations are about 9% of full retail revenue of the legal cannabis industry or about \$560 million per year for 10 years.

B2. All businesses expected to be impacted by the proposed regulations are either within the commercial cannabis industry or closely connected to cannabis production, processing, wholesale, testing, or retail.

B5. There are currently no federal guidelines for commercial cannabis activity. Any regulation of commercial cannabis activity would have to occur at the state or local level. There are currently no state regulations for commercial cannabis.

C. Estimated Benefits

C1. The proposed regulations are expected to improve the safety of the product. Laboratory testing requirements included in the proposed regulations will impose strict standards on the cannabis products that are sold to consumers. All cannabis sold at retail will be required to undergo testing to ensure that the cannabis is not dangerous to consume. There are currently no testing requirements for cannabis. Therefore, it is expected that the regulations will greatly increase the safety of the product and increase the public's confidence in the product. Additionally, the regulations include security requirements, which are expected to result in a reduction in crime. The security standards are expected to deter potential crime while at the same time allowing the Bureau and law enforcement to have access to video recordings when investigating a potential violation or crime. These security requirements are expected to create a safer environment for workers, customers, and communities in and around cannabis businesses. The benefits are quantified based on an anticipated shift up in willingness to pay by consumers for regulated cannabis. This is about 10% of the final retail value or about \$600 million per year.

C2. The Bureau is required to develop regulations relating to the laboratory testing of cannabis as well as the security requirements for the commercial cannabis businesses licensed by the Bureau. These statutory requirements are found within the MAUCRSA.

C4. Currently, the cannabis laboratory testing sector is relatively small. Testing of cannabis is not currently required. As the proposed regulations take effect and require that all cannabis sold at retail is required to be tested, it is expected that the laboratory testing industry will have to

expand to meet the new demand for their services. The proposed regulations will also likely result in some expansion in production, retail, and distribution in some areas while some businesses in those sectors are expected to contract or exit the industry as new regulatory requirements are imposed.

D. Alternatives to the Regulation

D1. The Bureau considered two alternative sets of regulations. The first alternative is a lower-cost alternative. This alternative contains less strict delivery, testing, and security requirements. The second alternative is a higher-security alternative which includes more strict delivery, testing, and security requirements.

D3. There is very little government or public data available on the cannabis industry in California. Additionally, this analysis required the creation of a simulated cannabis market baseline to isolate the effects of the proposed regulation. All measures are taken from the simulated cannabis market baseline, rather than the actual economic scenario in which the regulations were drafted. There is no observable or available data to accurately measure the simulated cannabis market baseline.

E. Major Regulations

E.5(1) Briefly Describe the Increase or Decrease of Investment in the State

It is estimated that the proposed regulations will increase investment in legal California cannabis businesses relative to the baseline. Legal cannabis revenue before tax will increase by about \$580 million from the simulated cannabis market baseline and this added revenue will be accompanied by investment. Some additional investment in the distribution business sector would likely follow from the proposed regulations. Many retail businesses will be required to make additional investments to comply with the requirements within the proposed regulations. Additional transport investment will likely be made by businesses in other business sectors that are anticipated to conduct most of the transporting.

E.5(2) Briefly Describe the Incentive for Innovation in Products, Materials, or Processes

MAUCRSA mandates that the proposed regulations include substantial new cannabis testing requirements. Information provided by government laboratory testing specialists and industry sources indicated that proposed regulations are likely to create incentives for innovations in testing procedures. For example, the proposed regulations create incentives for innovation to reduce costs for wet-lab testing machinery, perhaps including mobile testing laboratories. The proposed regulations create few direct incentives for innovations in the other business sectors.

E.5(3) Briefly Describe the Benefits of the Regulations

The proposed regulations are expected to improve the safety of the product. Laboratory testing requirements included in the proposed regulations will impose strict standards on the cannabis products that are sold to consumers. All cannabis sold at retail will be required to undergo testing to ensure that the cannabis is not dangerous to consume. There are currently no testing requirements for cannabis. Therefore, it is expected that the regulations will greatly increase the safety of the product and increase the public's confidence in the product. Additionally, the regulations include security requirements expected to result in a reduction in crime. The security standards are expected to deter potential crime while at the same time allowing the Bureau and law enforcement to have access to video recordings when investigating a potential violation or crime. These security requirements are expected to create a safer environment for workers, customers, and communities in and around cannabis businesses.

Fiscal Impact Statement Responses

A. Fiscal Effect on Local Government

A6. The regulations set state rules and do not set local city or county regulations. The MAUCRSA grants local jurisdictions the authority to regulate commercial cannabis businesses within their jurisdiction. The local rules may interact with the state's rules.

B. Fiscal Effect on State Government

B4. Fiscal year 2017-18 expenses are projected to be \$30.5 million for the Bureau. Resource needs in subsequent years are still being determined for Bureau operations. The proposed regulations are projected to generate sufficient revenue to cover the current and estimated future costs for the Bureau although the exact amounts are still under development.