

ECONOMIC AND FISCAL IMPACT STATEMENT

(REGULATIONS AND ORDERS)

STD. 399 (REV. 12/2013)

ECONOMIC IMPACT STATEMENT

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DESCRIPTIVE TITLE FROM NOTICE REGISTER OR FORM 400 Medicinal and Adult-Use Cannabis Regulations			NOTICE FILE NUMBER Z

CFB

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:

- a. Impacts business and/or employees
- b. Impacts small businesses
- c. Impacts jobs or occupations
- d. Impacts California competitiveness
- e. Imposes reporting requirements
- f. Imposes prescriptive instead of performance
- g. Impacts individuals
- 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: 10,000

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

Enter the number or percentage of total businesses impacted that are small businesses: 90%

4. Enter the number of businesses that will be created: 3,000 eliminated: 4,000

Explain: See Attached

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

6. Enter the number of jobs created: 5,000 direct and eliminated: 2,000 direct

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)

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? \$ 6 billion

a. Initial costs for a small business: \$ 60,000 Annual ongoing costs: \$ 150,000 Years: 10

b. Initial costs for a typical business: \$ 80,000 Annual ongoing costs: \$ 200,000 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.* \$ 0

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

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? \$ 6.4 billion

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

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: \$	<u>6.4 billion</u>	Cost: \$	<u>6 billion</u>
Alternative 1:	Benefit: \$	<u>3 billion</u>	Cost: \$	<u>2.8 billion</u>
Alternative 2:	Benefit: \$	<u>6 billion</u>	Cost: \$	<u>6.4 billion</u>

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.

CFB

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

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FISCAL IMPACT STATEMENT

CFB

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

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FISCAL IMPACT STATEMENT (CONTINUED)

CFB 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

CFB 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 _____

FD FISCAL OFFICER SIGNATURE DATE
 06/27/18

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 DATE
 7/3/18

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 DATE


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

Economic Impact Statement Responses

A. Estimated Private Sector Cost Impact

A3. The economic analysis indicates that about 10,000 businesses will be impacted. The changes in regulations and taxes are considerably extensive, such that companies that have been in the cannabis industry prior to 2018 may have to make significant modifications to their businesses to continue to remain in the industry. These businesses include commercial cannabis cultivators, manufacturers, distributors, retailers, event organizers 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, some businesses impacted may be owned by the same licensee, but are here treated as separate businesses.

A4. The economic analysis indicates that approximately 3,000 new businesses will be created, and 4,000 businesses will be eliminated. The retail, distribution, testing and event organizer businesses will be newly created replacing the existing businesses that will exit. We expect some consolidation under the new regulated environment as some very small retailers are no longer competitive. Due to the implementation of regulations to an industry that was previously almost 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. We do not count entry or exit from the illegal segment. We also do not count the indirect impact on cultivators and manufacturers in the businesses created and eliminated because those industries are much more affected by the direct regulations of those industries than the indirect regulations under consideration here.

A6. The economic analysis indicates that the proposed Bureau regulations will directly create about 5,000 new jobs in the regulated cannabis sector. In addition, a total of 2,000 new jobs will be created that are indirectly attributable to the Bureau's cannabis regulations. About 2,000 jobs will be eliminated. This results in a net increase of about 5,000 jobs. The cannabis retail sector includes most of the net new jobs. In, the distribution sector (which includes transportation), about 400 direct jobs will be created. In the testing sector, 240 direct jobs will be created.

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. 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 are expected to be recouped by the businesses from the individual customers.

B2. All businesses expected to be impacted directly by the proposed regulations are either within the commercial cannabis industry or closely connected to cannabis production, processing, transport, wholesale, testing, or retail. Other businesses will be affected indirectly through ripple effects in the economy.

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. The MAUCRSA regulations are the first commercial cannabis regulations to exist at the state level.

C. Estimated Benefits

C1. The proposed regulations are expected to improve the safety of the product and security of commercial and retail transactions. 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. Therefore, it is expected that the regulations will 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.

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. 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 net expansion in production, retail, and distribution of legal cannabis and higher value placed on the products. This added value of product will be reflected in additional revenue to cover added costs. Of course, some businesses are expected to contract or exit the industry as new regulatory requirements are imposed.

D. Alternatives to the Proposed Regulations

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 little government or public data available on the cannabis industry in California. The analysis of costs and benefits used a simulation of a cannabis market baseline to isolate the effects of the proposed regulation. All measures of the estimated regulated situation are compared to the simulated cannabis market baseline, rather than the actual economic situation in which the regulations were drafted because taxation and simultaneous regulations by other

agencies make the actual economic situation no longer relevant. There is no observable data to accurately measure the simulated cannabis market baseline. Benefits reflect consumer willingness to pay for a more highly regulated industry that provides additional safety and security relative to the baseline without the regulations. The willingness to pay is estimated to be above the costs of proposed regulations.

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 California cannabis businesses relative to the baseline. Legal cannabis revenue before tax will increase by about \$700 million due to the regulations because of higher prices and slightly higher quantities. This added revenue will be accompanied by investment. The sum of additional revenue over a decade is about \$7 billion. Investment in retail, distribution, testing and transport are all expected and are reflected in annualized costs. Most businesses in the industry will be required to make certain investments to comply with the requirements within the proposed regulations. Other investment will follow from business expansion.

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, packaging and other security 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 direct incentives for innovations in the other business sectors, especially packaging.

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

The proposed regulations are expected to improve the safety of the product and security of the transactions, including in child-resistant packaging. 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. The regulations will greatly increase the safety of the product. Other 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. Labeling and packaging rules will improve product security and the security of purchases.

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 states rules.

B. Fiscal Effect on State Government

B4. The regulatory administration and enforcement costs will be accounted for through fees collected by the Bureau. Fees have been calibrated to match expected annual Bureau expenditures.