

MAJOR REGULATIONS STANDARDIZED REGULATORY IMPACT ASSESSMENT SUMMARY

DF-131 (NEW 11/13)

STANDARDIZED REGULATORY IMPACT ASSESSMENT SUMMARY

Agency (Department) Name	Contact Person	Mailing Address
Department of Cannabis Control	Shannon George	P.O. Box 419106
Email Address	Telephone Number	Rancho Cordova, CA 95741-9106
shannon.george@cannnabis.ca.gov	279-217-3650	

1. Statement of the need for the proposed major regulation.

In 2017, DPR provided the Department (then the Bureau of Cannabis Control) an initial proposed list of action levels for 66 pesticides. There was a lack of analytical data at the time these levels were established. Since the initial recommendations in 2017, new scientific data on pesticide toxicity and residue levels have emerged, and DPR has reassessed the risk of pesticide residues found in cannabis goods. These efforts are ongoing. Additionally, changes in federal and state risk assessment methodologies and advancements in testing technologies have highlighted the need for more precise and health-based action levels. To accomplish this, DPR has recommended moving away from the Category I/Category II system to allow for a health-based approach for all action levels. That is, instead of having no permissible detection for Category I pesticides, LOQs and action limits are established depending on the relative risk of the pesticide.

In addition to establishing new action levels, the proposed regulations redefine LOQs for each pesticide. The LOQ is the detectable concentration of an analyte (pesticide compound). The LOQ established in 2017 of 0.1 µg/gram allowed some laboratories to avoid accurately quantifying pesticide residues found in samples. As a result, products which should have failed testing for pesticide residues instead may have reached consumers. This may have also inadvertently created an incentive for products passing testing that should have failed. Establishing lower LOQs prevents laboratories and distributors from passing pesticide residue testing and ensures products that reach the market meet consistent minimum standards based on the current science and data.

2. The categories of individuals and business enterprises who will be impacted by the proposed major regulation and the amount of the economic impact on each such category.

During the first 12 months following implementation of the proposed regulations:

- Licensed cannabis laboratories would incur a direct cost of \$30 million.
- Gross sales of cannabis in the licensed market would decrease by \$12.4 million.
- Licensed cannabis cultivators would see a decrease in producer surplus of \$12.3 million.
- Consumers in the licensed cannabis market would see a decrease in consumer surplus of \$41.8 million.
- Increased spending by licensed cannabis laboratories would generate economic activity in linked, ancillary industries - this would equal a gross increase in economic output of \$71.2 million, including direct effects.
- Decrease supply of licensed cannabis would decrease economic activity at retail and in linked, ancillary industries - this would equal a gross decrease in economic output of \$96.2 million, including direct effects.
- The total statewide cost to businesses and individuals, including direct costs, decrease in labor income, decrease in value added, and decrease in economic output, would be \$222.11 million.

3. Description of all costs and all benefits due to the proposed regulatory change (calculated on an annual basis from estimated date of filing with the Secretary of State through 12 months after the estimated date the proposed major regulation will be fully implemented as estimated by the agency).

The regulations would result in increased spending by labs on equipment, materials, labor, and other inputs totaling \$30 million. This represents a cost to cannabis labs, but is a benefit to linked industries. The additional spending by labs would lead a total (direct, indirect, and induced) impact of 304 additional full-time equivalent (FTE) jobs, a \$26.7 million increase in labor income, a \$37.8 million increase in value added, and a \$71.2 million increase total output. Total statewide benefits would be \$135.7 million.

The regulations would also result in a decrease in cannabis output and corresponding price increase. The overall effect would be a decrease in gross retail sales of cannabis of \$12.4 million, a decrease in producer surplus of \$12.3 million, and a decrease in consumer surplus of \$41.8 million. There is a decrease in gross economic output at retail valued at \$53.8 million based on the change in supply at current market prices. This leads to a total impact of 1,144 fewer FTE jobs, a \$38.6 million decrease in labor income, a \$57.3 million decrease in value added, and a \$96.24 million decrease in total output. Total statewide costs including direct costs to laboratories (\$30 million) would be \$222.11 million.

The net total effects of the regulations would be a decrease of 841 FTE jobs, a decrease of \$11.9 million in labor income, an decrease of \$19.5 million in value added, and a \$25.0 million decrease in economic output.

4. Description of the 12-month period in which the agency estimates the economic impact of the proposed major regulation will exceed \$50 million.

The 12-month period that economic impacts were estimated for is the 12 months following full implementation of the proposed regulations. This is generally interpreted as starting within the six month period after the proposed regulations are implemented.

MAJOR REGULATIONS STANDARDIZED REGULATORY IMPACT
ASSESSMENT SUMMARY

DF-131 (NEW 11/13)

5. Description of the agency’s baseline:

The baseline condition, per the California Administrative Procedure Act guidelines, is the most cost-effective set of regulatory measures that ensure full compliance with the authorizing statute or other law being implemented. This ensures that the economic impacts only measure the incremental changes attributable to the regulation. In this case, the baseline condition is the no action alternative (i.e., absence of the proposed regulations). All economic impacts are measured relative to this baseline (no action). Market conditions under the no action alternative would be the same as the current conditions.

6. For each alternative that the agency considered (including those provided by the public or another governmental agency), please describe:

a. All costs and all benefits of the alternative

b. The reason for rejecting alternative

Under the first alternative considered by the Department, laboratories would only need to revalidate their testing methodologies for chemicals already on the current residual pesticide list if the proposed action limit is lower than 0.1 µg/g. ISO 17025 reaccreditation would be required for 1 of 66 chemicals on the current residual pesticide list, as well as the 14 new chemicals. However, there is not expected to be an increase in the failure rate attributed to chemicals that forego ISO 17025 reaccreditation. This alternative would result in increased spending by labs on equipment, materials, labor, and other inputs totaling \$5.6 million. This represents a cost to cannabis labs, but is also a benefit to linked industries. The additional spending by labs would lead a total (direct, indirect, and induced) impact of 57 additional full-time equivalent (FTE) jobs, a \$5 million increase in labor income, a \$7.1 million increase in value added, and a \$13.4 million increase total output. Total statewide benefits would be \$25.4 million. This alternative would also result in a decrease in cannabis output and corresponding price increase. This effect would include a decrease in gross economic output at retail of \$16.3 million, a decrease in producer surplus of \$3.7 million, and a decrease in consumer surplus of \$12.7 million. The decrease in gross economic output is applied as the decrease in proprietor income for cannabis retailers. This leads to 348 fewer FTE jobs, a \$11.7 million decrease in labor income, a \$17.4 million decrease in value added, and a \$29.2 million decrease in total output. Total statewide costs including direct costs to laboratories (\$5.6 million) would be \$63.9 million. The net total effects of the alternative would be a decrease of 291 FTE jobs, a decrease of \$6.7 million in labor income, a decrease of \$10.3 million in value added, and a \$15.9 million decrease in economic output. This alternative was rejected because by not requiring revalidation of testing methods for all pesticides, laboratories will be able to continue to avoid properly testing for residue of these pesticides. As a result, there will continue to be products containing unsafe levels of pesticide residue which reach consumers. This would lead to massive human health costs that were not quantified.

The second alternative is the no action alternative (which in this SRIA is also the baseline against which regulatory impacts of the proposed regulation are measured). The Department can meet its statutory requirements without modifying the existing regulations. Under this alternative, no changes would be made to laboratory testing requirements in response to DPR’s recommendations. Direct benefits, costs, market effects, indirect and induced effects, and all economic impacts would be 0. This is because there would be no change relative to the baseline of current regulations. This alternative is rejected as there would be no changes implemented to prevent products with unsafe levels of pesticide residue from reaching consumers. Ensuring that products that reach consumers are safe for consumption is the primary objective of the proposed regulations.

7. A description of the methods by which the agency sought public input. (Please include documentation of that public outreach).

The following groups were contacted to support the development of the analysis:

- Laboratories and other industry professionals to review current market conditions, update cost of production information, verify industry data, and receive general insights on industry trends, challenges, and changes.
- Researchers to discuss industry trends and feedback from other outreach/survey efforts.
- Department staff to assess potential effects on laboratories and short- and long-term staff level effort to manage laboratory license changes (fiscal costs).

The Department also engaged in outreach to inform licensees about the proposed Laboratory regulatory changes. Outreach efforts provided interested parties the opportunity to provide feedback on draft regulations. Outreach included communication with potentially interested parties via email and phone, as well as organized events including, but not limited to, Cannabis Advisory Committee meetings and other DCC meetings.

8. A description of the economic impact method and approach (including the underlying assumptions the agency used and the rationale and basis for those assumptions).

The economic impact analysis included the following steps:

- Estimation of direct costs and benefits (based on outreach)
 - Direct costs to labs resulting from additional equipment, materials, and labor to comply with regulations
 - Direct benefits (equal to, but not offsetting, the direct costs) to industries supporting cannabis labs due to increased spending and investment
- An analysis of market effects using an equilibrium displacement model (EDM). The EDM includes all parts of the cannabis supply chain (cultivation, distribution, manufacturing, testing, and retail), and includes both licensed cannabis and the illicit market for cannabis. The EDM results in:
 - Direct costs lead to a supply curve shift for the cannabis industry
 - Potential supply shocks due to more failed testing reducing total industry supply
 - Result in changes in producer surplus, consumer surplus, and gross sales of cannabis
- An IMPLAN analysis using custom cannabis sectors
 - Reduced gross economic output (from EDM results) is applied as an output change in a custom cannabis retail sector to further determine employment and secondary impacts to linked ancillary industries
 - Increased spending by laboratories is applied as an increase in output in the custom cannabis laboratory sector, resulting in employment and secondary impacts to linked ancillary industries

Agency Signature
Nicole Elliott

Digitally signed by Nicole Elliott
Date: 2025.03.26 14:13:16 -0700'

Date
3/26/25

Agency Head (Printed)