



Ashlynn Blackshire
Bureau of Cannabis Control
California Department of Consumers Affairs
2920 Kilgore Road,
Rancho Cordova, CA 95670

June 15, 2018

Dear Ms. Blackshire:

Thank you for submitting the standardized regulatory impact assessment (SRIA) and the summary (Form DF-131) for proposed regulations on testing, distribution, transportation, and retailing, as required in California Code of Regulations, title 1, section 2002(a)(1). As proposed regulations were not submitted with the SRIA, these comments are based on our understanding of Proposition 64, the SRIA prepared and submitted by the Bureau of Cannabis Control, as well as other publicly available information.

Proposed regulations establish testing standards for laboratories, requirements for distributors, transport requirements for retail delivery, and operational compliance requirements for retailers, with a direct cost of compliance of around \$550 million, not including state and local taxes. Around \$350 million of this is due to laboratory testing requirements. In addition, the SRIA estimates that when the regulations are implemented, total retail revenues would be \$6.7 billion for the medicinal and adult-use markets, of which \$1.8 billion is tax revenue. Retail prices per pound would average around \$5,000, and around 1.33 million pounds would be sold in California. Although costs for compliant businesses would be higher, they would benefit from greater certainty in supply chains and be able to amortize investments over longer periods, leading to higher profits. Consumers are also expected to buy more from the legal market, as more consistent quality and supply give them confidence.

Finance generally concurs with the methodology used by the Bureau to estimate impacts of proposed regulations. The SRIA reflects the commendable efforts of the Bureau to contact affected stakeholders, and to gather information about the costs, benefits, and market conditions in the segments of testing, distribution, transportation and retail of the cannabis industry. The analysis does a good job of laying out the underlying mechanisms of how the regulations will affect the business and the state's economy. This SRIA is unusual in that the baseline must incorporate regulations being developed concurrently by the California Department of Public Health and by the California Department of Food and Agriculture, and the advance discussion with Finance on this issue was appreciated. In these and other areas, such as the assumption that federal policy will be unchanged, the SRIA is clear about the underlying assumptions.

However, there are two areas where further clarification would benefit the public. First, the SRIA should address the possibility that costs are higher than estimated in the laboratory sector, which may decrease the number of businesses that choose to shift into the legal sector. The SRIA assumes that in the long run the number of testing facilities will increase proportionally to the testing needs implied by the growing demand of the legalized cannabis market. However, if only a few laboratories are able to make investments, the price for testing

services will be higher, increasing the retail price of cannabis products and decreasing the total quantity of cannabis sold in the legal market.

Second, the analysis should address the potentially disproportionate impacts on small businesses of the costs of compliance. For large successful businesses, the cost to comply represents a small share of its profits, but for small businesses the cost of compliance may be a significant share of their already low operational profits, leading them to choose non-compliance or exit from the industry.

These comments are intended to provide sufficient guidance to outline prospective revisions to the SRIA. The SRIA, a summary of Finance's comments, and any responses must be included in the rulemaking file that is available for public comment. Finance understands that the proposed regulations may change during the rulemaking process. If any significant changes to the proposed regulations result in economic impacts not discussed in the SRIA, please note that the revised economic impacts must be reflected on the Standard Form 399 for the rulemaking file submittal to the Office of Administrative Law. Please let us know if you have any questions regarding our comments.

Sincerely,

A handwritten signature in blue ink, appearing to read "Irena Asmundson".

Irena Asmundson
Chief Economist
Department of Finance

cc: Ms. Panorea Avdis, Director, Governor's Office on Business and Development
Ms. Debra Cornez, Director, Office of Administrative Law
Mr. Dean Grafilo, Director, Department of Consumers Affairs
Ms. Alexis Podesta, Secretary, California Business, Consumer Services and
Housing Agency
Ms. Lori Ajax, Chief, Bureau of Cannabis Control
Dr. Daniel Summer, University of California Agricultural Issues Center