

MAJOR REGULATIONS STANDARDIZED REGULATORY IMPACT ASSESSMENT SUMMARY

DF-131 (NEW 11/13)

STANDARDIZED REGULATORY IMPACT ASSESSMENT SUMMARY

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<p>1. Statement of the need for the proposed major regulation.</p> <p>In June 2017, the California State Legislature enacted the Medicinal and Adult-Use Cannabis Regulation and Safety Act (MAUCRSA). MAUCRSA unifies the Medical Cannabis Regulation and Safety Act (MCRSA), which was enacted in 2015, and the Adult use of Marijuana Act (AUMA), which was approved by voters through Proposition 64. MAUCRSA provides the Bureau of Cannabis Control (Bureau) with the power, duty, purpose, responsibility, and jurisdiction to regulate commercial cannabis activity as provided in MAUCRSA. Under the MAUCRSA, the Bureau is the state licensing authority for commercial cannabis retailers, distributors, testing laboratories, microbusinesses, and events. The regulations are necessary for the Bureau to carry out its regulatory role in the implementation of MAUCRSA.</p>		
<p>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.</p> <p>Categories include California medicinal and adult-use individual cannabis consumers and California cannabis businesses categories: distributors, testing labs, and retailers. For medical consumers, quantity rises by 4% and expenditure rises by \$343 million. For adult-use consumers, quantity rises by 2% and expenditure rises by \$352 million. Direct margin for legal cannabis distributors (defined as value generated within the sector) increases by \$77 million. Revenue for testing labs increases by \$74 million. For the legal cannabis industry in California, total retail margin (defined as value generated within the sector) increases by \$214 million and revenue rises by \$695 million (\$533 million net of taxes) due to proposed Bureau regulations. These do not include economy-wide multiplier effects.</p>		
<p>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).</p> <p>The estimated date of filing is April 23, 2018. We do not have detailed quantitative estimates of the cost and benefits during the interim period when the regulations have not yet been fully implemented and there is a period of flux while businesses and individuals adjust to implementation. SRIA estimates summarized in response 2, 4, and 6 apply to the first full year after full implementation of proposed Bureau regulations. The costs and benefits of regulations will gradually increase as regulations and enforcement are being phased in and as businesses and individuals adjust. For the 12-month period after full implementation, we estimate total economic costs (which include returns on investment, risk and management, and taxes) to be \$695 million. We estimate that retail buyers will chose to purchase cannabis in the legal market at quantities that exceed those in the Taxation Baseline, thus demonstrating a willingness to pay the regulatory costs and indicating a benefit for consumers that exceed the cost of regulations.</p>		
<p>4. Description of the 12-month period in which the agency estimates the economic impact of the proposed major regulation will exceed \$50 million.</p> <p>Our simulation estimates and the impacts summarized in response 2 apply to the first 12-month period after full implementation of the proposed Bureau regulations and after the market has settled from initial flux related to full implementation. This situation will not occur until after the date of full implementation. Implementation, annual licensing, and testing are scheduled for the period after July 1, 2018. Aspects of the proposed regulations, such as the track-and-trace system, are expected to be fully implemented and operational at various points during 2018. Thus, estimated costs and benefits due to the proposed regulatory changes in the first 12-month period after full implementation are likely to be approximated by costs and benefits during the 2019 calendar year. Even given its high degree of uncertainty, our estimated impact of \$695 million during the first 12 months after full implementation, as measured by the annual increase in consumer expenditures, well exceeds \$50 million.</p>		

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5. Description of the agency's baseline:

In the SRIA, the baseline for calculating economic impacts of the proposed Bureau regulations is a hypothetical market scenario in which medicinal and adult-use cannabis are legalized in California and taxed (by the state as required by MAUCRSA, and by local authorities), and in which the proposed CDPH and CDFR regulations on manufacturing and cultivation are implemented, but in which proposed Bureau regulations are not in place. Throughout the SRIA, we abbreviate this situation as the "Taxation Baseline."

In the SRIA, the phrase "the 2017 situation" refers to the actual California situation in which medicinal cannabis continued to be decriminalized and sales of adult-use cannabis remained illegal. Data and estimates from this situation inform a starting point from which we construct new estimates for the Taxation Baseline. The Taxation Baseline does not correspond directly to any observed market situation, but is nonetheless the relevant situation from which the impacts of the proposed Bureau regulations may be assessed.

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

a. With the Bureau regulations in place, retail revenue for legal cannabis is higher than the Taxation baseline by \$695 million, and quantity sold is higher than the Taxation Baseline by 33,765 pounds. With the lower-cost alternative regulations, retail revenue for legal cannabis is higher than the Taxation Baseline by \$665 million, and quantity sold is higher than the baseline by 43,755 pounds. With the higher-security alternative regulations, retail revenue for legal cannabis is higher than the baseline by \$641 million, but quantity is lower than the baseline by 57,549 pounds. These results are detailed in SRIA Tables 2a-2c.

b. Based on these estimates, the lower-cost alternative results in lower industry costs and revenue and a lower level of security that reduces willingness to pay for legal cannabis. The higher-security alternative would provide little additional benefit as assessed by businesses and willingness to pay their customers, but impose substantial extra costs. The implication is substantially smaller sales of medicinal or adult-use cannabis (and more sales in the illegal market) because the cost of legal cannabis is substantially higher. Under both alternatives, the increase in legal cannabis retail revenue relative to the baseline is less than the increase in revenue under the proposed regulations. Calculations are reported in SRIA Section 12 and detailed in SRIA Appendix Chapters 8 and 9.

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

The Bureau held a series of pre-regulatory meetings during the development of the MCRSA regulations at the following locations and dates: Redding - 9/19/16, Sacramento - 9/20/16, Santa Rosa - 9/22/16, Oakland - 9/26/16, Fresno - 9/27/16, Los Angeles - 10/4/16, and San Diego 10/5/16.

Upon the release of the proposed MCRSA regulations on 4/28/17, the Bureau accepted public comments for the 45-day public comment period and held public hearings at the following locations and dates: Eureka - 6/1/17, Los Angeles-6/8/17, Sacramento - 6/9/17 and 6/20/17, and San Jose - 6/13/17. With the enactment of MAUCRSA, the MCRSA regulations were withdrawn. All public input for the MCRSA regulations contributed to the development of the MAUCRSA regulations.

A summary of the public comments can be found here: https://www.bcc.ca.gov/law_regs/mcrsa_comments.pdf

A summary of the public comments specifically for the testing laboratory regulations can be found here: https://www.bcc.ca.gov/law_regs/mcrsa_lab_comments.pdf.

The Bureau released emergency MAUCRSA regulations on 11/28/17, and allowed for public comments related to the emergency regulations until 12/4/17. The public comments for the emergency regulations have contributed to the development of the proposed regulations.

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).

Surveys of prices in the California medicinal cannabis market in 2017 and reviews of published estimate of quantities and revenues provide initial data. Reviews of implementation in other states provide some guidance on expected consumer and business responses. Market assumptions were further refined with surveys, and interviews with industry stakeholders. The "Taxation Baseline" was developed from the initial data and assumptions about supply and demand equation parameters using an equilibrium displacement model that simulated impacts of adult-use legalization, costs due to taxation, and compliance costs due to CDPH and CDFR regulations. The Taxation Baseline equilibrium estimates generated by our simulation are estimates of the appropriate hypothetical market situation to which the proposed Bureau regulations are applied in a simulation model. The impacts of regulations on business costs and buyer demand were based on calculations of direct costs of each regulatory requirement and estimates of business responses, such as to losses from cannabis that does not meet testing standards. For buyer demand, the model uses, for example, estimates of increased willingness to pay for tested cannabis or more secure market environments, as well as reduced quantity demanded from restrictions on which hours of the day retailers are allowed to operate. The differences between the simulated market situation (prices, quantities, and revenues) in the Taxation Baseline and the simulated market situation with the proposed Bureau regulations applied to that Baseline generates the estimated impacts of the proposed Bureau regulations. The analysis uses the best available data and parameter values in simulations, but there is necessarily considerable uncertainty in all assumptions and therefore uncertainty about estimated impacts.

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