



CJ Croys-Schooley
Bureau of Marijuana Control/Bureau of Medical Cannabis Regulation
Department of Consumer Affairs
1625 N Street, Ste. 202
Sacramento, CA 95834

March 29, 2017

Dear Ms. Croys-Schooley:

Thank you for submitting the standardized regulatory impact assessment (SRIA) and the summary (Form DF-131) for the proposed regulations for Medical Cannabis Businesses, 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 the SRIA, our understanding of Proposition 64, and the Medical Cannabis Regulation and Safety Act of 2015.

The proposed regulations will set forth the conditions for dispensaries, transporters, and testing laboratories to be licensed by the state. The medical cannabis sector was estimated to total around \$2 billion at the end of 2016, with a retail price of around \$3400 per flower-equivalent pound and around 580,000 pounds sold. When these regulations are in effect, dispensaries will have higher costs from compliance of around \$520 per pound, with \$400 of that from testing alone, but the retail price should fall to around \$3100 due to decreasing costs once growers and manufacturers are also regulated. At the same time, recreational cannabis is assumed to be in place, which would lower medical cannabis quantities sold to 230,000 pounds, with private revenues of \$700 million and tax revenues of around \$170 million. Despite the \$100 fee patients are assumed to pay to access medical cannabis, the additional quality and testing are assumed to keep medical dispensaries in business even after recreational cannabis is available.

Finance generally concurs with the methodology used to estimate the annual economic impact under the proposed regulation. The analysis does a good job of laying out how the regulations will affect the end consumers and the economy. This SRIA is unusual in that the baseline must incorporate the legalization of adult use, despite the fact that the regulations for that will come into effect at the same time as the medical cannabis regulations. In these and other areas, such as the assumptions that federal policy will be unchanged, the SRIA is clear about underlying assumptions.

However, there are three areas where the analysis must be augmented. First, the SRIA must include an estimate of the local revenue and expenditure increases from the state regulating medical cannabis. While collecting fees at the local level is not under the control of the state, there will be other impacts from local fees. These local choices will affect the overall value to companies of complying with the state regulations, and the SRIA must include assumptions about these effects. For example, the assumption that local regulatory costs will be low enough that companies will choose to comply is essential to having a legal medical cannabis sector. Second, the impacts of the manufacturers regulations should be compared with both the current economic situation (without recreational use), and with the future situation that allows for recreational use. This is necessary so as not to mislead the reader by only accounting for the benefits of medical manufacturer regulations. For example, the IMPLAN calculations all show increases in

investment, jobs, and GDP for the state as a result of medical cannabis regulations when compared with only recreational cannabis being available, but investment and jobs in the medical cannabis sector will actually shrink compared with the current situation where both medical and recreational cannabis are unregulated. Both aspects are important to discuss for the impacts to be understood by the reader.

Finally, the SRIA must also discuss in greater detail the interactions between transporters and the laboratories and dispensaries. Laboratories see a large increase in demand for their services, medical cannabis dispensaries continue to see demand (albeit at lower levels than at the end of 2016), but the transport sector is largely assumed to have few effects. However, given the licensing and particular requirements for transport of medical cannabis, there should be entry of new businesses into this sector, or additional demand for services at least. These costs should also be accounted for in transactions with laboratories, manufacturers, and dispensaries.

We appreciate the efforts you made to contact affected stakeholders, and to gather information about the costs, benefits, and market conditions in the cannabis industry. We also appreciate the willingness of the agency in engaging us early in the SRIA process.

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,



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
Ms. Tina Daley, Deputy Secretary, Business, Consumer Services, and Housing Agency
Ms. Lori Ajax, Chief, Bureau of Marijuana Control, Dept. of Consumer Affairs
Ms. Tamara Colson, Assistant Chief Counsel, Bureau of Marijuana Control, Dept. of Consumer Affairs