

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>The Medical Cannabis Regulation and Safety Act (MCRSA) establishes the regulatory system for the licensing and enforcement of medical cannabis businesses. Under the MCRSA, the Bureau of Medical Cannabis Regulation (Bureau) was formed and tasked with the duty to create a licensing system for distributors, testing laboratories, transporters, and dispensaries. The Bureau is required by MCRSA to develop regulations for the implementation of the Act.</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>The proposed major regulations will impact businesses who are engaged in activities that will be licensed by the Bureau. This includes, medical cannabis distributors, medical cannabis transporters, medical cannabis testing laboratories, and medical cannabis dispensaries. The expected economic impact of the proposed regulations on medical cannabis distributors is an increase in revenue of \$12.5 million. The expected economic impact of the proposed regulations on medical cannabis testing laboratories is an increase in revenue of \$90.2 million. The expected economic impact of the proposed regulations on medical cannabis transporters is a decrease in revenue of \$600,000. The expected economic impact of the proposed regulations on medical cannabis dispensaries is an increase in revenue of \$43.4 million.</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>Costs: The proposed regulations are expected to increase the costs of medical cannabis distributors, medical cannabis transporters, medical cannabis testing laboratories, and medical cannabis dispensaries. The proposed regulations impose requirements for security, delivery, laboratory testing, and other aspects of a medical cannabis business which will lead to an increase in costs. It is expected that the total increase in costs is \$524 per pound. With an estimated industry size of 230,000 pounds, the total additional cost to the industry due to the proposed regulations is expected to be \$120.5 million.</p> <p>Benefits: The proposed regulations provide an increase in the safety of the product that is achieved through the mandatory testing of all medical cannabis. Medical cannabis will not be provided to patients for consumption until the medical cannabis has undergone a number of tests, including tests for harmful contaminants such as pesticides. The proposed regulations also require all licensees to comply with certain security requirements that will decrease the risk of theft or other crime. Additionally, the additional testing and security required by the proposed regulations are expected to lead to an increase in demand for medical cannabis that is perceived to be safer after undergoing testing. In total, the entire industry is expected to increase in revenue by \$113 million. Furthermore, the proposed regulations are expected to increase the number of jobs in the state by 2,071 jobs.</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>The regulations are expected to take effect on January 1, 2018. It is expected that on this date, licenses will begin to be issued and enforcement will commence. the 12 month period used to determine whether the economic impact of the proposed regulation will exceed \$50 million is January 1, 2018 to January 1, 2019.</p>		

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5. Description of the agency's baseline:

The proposed regulations are expected to take effect on January 1, 2018. At the same time, the sale of adult-use marijuana is expected to begin. Additionally, the taxation rules which apply to both adult-use and medical cannabis will take effect. Therefore, in order to establish a proper baseline, the effects of both the sale of adult-use marijuana and the new taxation laws must be factored in. A baseline was established by taking measurements of the medical cannabis industry in the fall of 2016 and then applying the expected changes that would result from the sale of adult-use marijuana and the new taxation laws. By doing this, a baseline for the medical cannabis industry in 2018 was established with a price per pound of \$2,556, a total quantity of 235,000 pounds, and a total untaxed revenue of \$601 million.

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

Proposed regulations: The proposed regulations limit batch sizes for testing to a 10 pound maximum, delivery is required to be performed using an enclosed automobile, and there are no requirements for more than one employee to perform deliveries. Additionally, the proposed regulations require security cameras that record in 1280 x 1024 resolution at 20 frames per second and that the footage be kept for 30 days. The proposed regulations are expected to increase costs by \$524 a pound.

Lower cost alternative: The lower cost alternative has no limit on batch size for testing, allows for deliveries to be performed on foot or on vehicles that are not enclosed, and has no requirements for security cameras. The lower cost alternative is expected to increase costs by \$225 a pound, or \$299 per pound less than the proposed regulations. This alternative was rejected because the added security and more accurate test results that accompany the proposed regulations, although more costly are desirable. Additionally, this alternative is expected to cause a smaller increase in revenue in the medical cannabis industry than the proposed regulations.

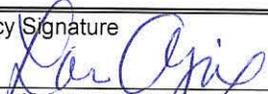
Higher-Security Alternative: The higher-security alternate places a 5 pound batch size limit on testing, required that deliveries be made in enclosed vehicles with at least 2 employees, and includes the same security camera requirements as the proposed regulations with the addition of a requirement to maintain the security footage for 90 days instead of the 30 days required by the proposed regulations. The higher-security alternative is expected to increase costs by \$873, or \$349 more than the proposed regulations. This alternative was rejected because despite being more costly, it is expected that the higher-security alternative will result in less of an increase in revenue when compared to the proposed regulations. Additionally, the added security created by this alternative may not be necessary as the security measures required by the proposed regulations appear to be adequate.

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

Between September 18, 2016 to October 18, 2016, the Bureau held 8 pre-regulatory stakeholder meetings in Redding, Santa Rosa, Fresno, San Diego, Sacramento, Oakland, Los Angeles, and Santa Ana. At these meetings the Bureau provided a list of specific regulatory issues for each license type in order to have group discussions and obtain feedback from the industry. Additionally, the Bureau is constantly collecting public input through the Bureau email address.

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 costs and benefits to the industry and society were estimated using information gathered from dozens of in person and telephone interviews with industry participants about their operations and costs, data gathered from websites of about 550 medical dispensaries on their product prices and other characteristics, data gathered from input and service providers relative to costs of compliance to the proposed regulations, reviews of industry specific literature on market size, prices and projections, information on the evolution of markets and responses to new regulations in other states such as Colorado, Washington and Oregon. These data provided background for assumptions used in a simulation models of changes in medical cannabis costs and demand to create a counter-factual baseline representing taxation and legalization of adult-use cannabis that will be in place in 2018. A key assumption is that much of the sales of medical cannabis would shift to adult-use when that market channel become fully available. A second key assumption is that consumers value the enhanced security and safety characteristics that follow from the proposed regulations. The simulation model was also used to calculate effect of the proposed regulations and alternatives on prices, quantities, revenues and tax receipts relative to the counter-factual baseline. Finally, the IMPLAN model, adapted to include use other industries to represent medical cannabis sectors, was applied to calculate economy-wide impacts of proposed regulations on distribution, transport, testing and dispensing of medical cannabis.

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