DEPARTMENT OF FINANCE

EDMUND G. BROWN JR. • GOVERNOR

915 L STREET ■ SACRAMENTO CA ■ 95814-3706 ■ WWW.DOF.CA.GOV

Hannah Strom-Martin and Dawn Basciano
California Department of Public Health
1415 L Street, Ste. 500
Sacramento, CA 95814

March 10, 2017

Dear Ms. Strom-Martin and Ms. Basciano:

Thank you for submitting the standardized regulatory impact assessment (SRIA) and the summary (Form DF-131) for the proposed regulations for Manufacturers of Medical Cannabis, 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 manufacturers to be licensed by the state, with two different license types depending on the extraction process, and another two license types for non-extraction producers and packagers. To receive a state license, applicants would have to receive local licenses; must obtain a seller's permit from the Board of Equalization; submit standard operating procedures; maintain certain security, safety, record-keeping standards; and pay the application fees. The SRIA assumes that retail sales of manufactured medical cannabis products total around $650 million a year, and that there are around 1,000 manufacturers whose revenues total around $230 million, with around 4,000 employees in the sector. The estimated direct cost of compliance for the medical cannabis manufacturer sector is around $52 million in 2018, with ongoing costs of around $39 million per year after that. This will increase prices, but the greater certainty from being licensed and legal recreational market effects should offset these increases. After recreational and medical use regulations are implemented at the beginning of 2018, the SRIA assumes that costs and prices fall, with recreational cannabis products taking market share from the unregulated and medical cannabis sectors.

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 the underlying mechanisms of how the regulations will affect the manufacturers 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 two 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 excise fees. The SRIA does a good job of including local fees and enforcement in the discussion of manufacturer incentives, and it would aid the reader to have the local government side laid out in parallel, both the impacts due to the regulation (as required), and the assumed impacts from local government choices. 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.

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. Miren Klein, Assistant Deputy Director, California Dept. of Public Health
Ms. Shannon George, Policy Analyst, California Dept. of Public Health
Dr. Asif Maan, Chief of Manufactured Cannabis Safety, California Dept. of Public Health
Mr. Keith Van Wagner, Acting Asst. Chief Counsel, California Dept. of Public Health
Mr. Erick Eschker, Humboldt Institute for Interdisciplinary Marijuana Research