

## MAJOR REGULATIONS STANDARDIZED REGULATORY IMPACT ASSESSMENT SUMMARY

DF-131 (NEW 11/13)

### STANDARDIZED REGULATORY IMPACT ASSESSMENT SUMMARY

Agency (Department) Name <b>Department of Food &amp; Agriculture</b>	Contact Person <b>Amanda Brown</b>	Mailing Address
Email Address <b>amanda.brown@cdfa.ca.gov</b>	Telephone Number <b>916-263-1375</b>	
<p><b>1. Statement of the need for the proposed major regulation.</b></p> <p>These regulations are intended to address the obligation of the CDFA to regulate the cultivation of commercial medicinal and adult use cannabis pursuant to Senate Bill 94. The laws form the Medicinal and Adult Use Cannabis Regulation and Safety Act. MAUCRSA mandates that CDFA license commercial medicinal and adult use cannabis cultivation operation through the promulgation of regulations and to develop and manage a cannabis track and trace system. The overall purpose of CDFA's Program is to establish a regulatory licensing program that would ensure that medicinal and adult use cannabis cultivation operations would be performed in a manner that protects the environment, cannabis cultivation workers, and the general public from the individual and cumulative effects of these operations, and fully complies with all applicable laws.</p> <p>The overall purpose of CDFA's Program is to establish a regulatory licensing program that would ensure that cannabis cultivation operations would be performed in a manner that protects the environment, cannabis cultivation workers, and the general public from the individual and cumulative effects of these operations, and fully complies with all applicable laws. In the absence of a formal regulatory framework the negative impacts associated with cannabis cultivation are expected to increase, resulting in an unregulated, unstudied and potentially permanent negative impact on the environment and upon the peace, health and safety of Californians.</p>		
<p><b>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:</b></p> <p>The following sectors of the economy would be affected by the regulations. Economic impact is expressed in terms of total value added. Farm equipment \$3.8 million; Farm services \$34.3 million; Misc. Farm inputs \$8.2 million; Local Gov. expenditures \$17.8 million; State Gov. expenditures \$78.5 million; State Gov. consulting support \$61.5 million; Cannabis employee labor \$16.3 million; Cannabis proprietor income -\$76.9 million; Outdoor cannabis production -\$21.9 million; Indoor cannabis production -3.4 million; Mixed-light cannabis production \$20.3 million; energy \$2.3 million; cannabis nurseries \$63,000.</p>		
<p><b>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).</b></p> <p>The regulations would result in a slight increase in total cannabis production with a corresponding decrease in the market price. Outdoor cultivation and indoor cultivation would decrease and mixed-light cultivation would increase slightly. The overall market impacts would be small since cultivators shift from the unlicensed to licensed market. The regulations would require additional labor and input purchases by cultivators, resulting in a decrease in proprietor income, but increases in purchases from other industries such as farm input suppliers and related industries. The statewide net effect of the regulations would be an estimated 1,673 additional jobs, \$140.9 million in value added, \$281.4 million in gross output value, and \$128.5 million in labor income. Other benefits not included above would include reduced production externalities, improved cannabis quality (reduced pesticides), and reduced risk premium to cultivators.</p>		
<p><b>4. Description of the 12-month period in which the agency estimates the economic impact of the proposed major regulation will exceed \$50 million.</b></p> <p>For the purposes of this analysis the 12 month period in which the economic impact of the proposed regulation would exceed \$50 million is defined as the calendar year January 2018 – December 2018, in reference to a baseline where the market is in equilibrium. See SRIA Section 6.1 for a discussion of how this adjustment may occur. This period is used because it represents the 12 months following implementation of the proposed regulations (1/1/2018). The total 12-month output value economic impact of regulatory costs to cultivators would equal \$166 million.</p>		

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### 5. Description of the agency's baseline:

The combined adult use and medicinal licensed cannabis market used in the SRIA baseline is estimated to equal 1.3 million pounds per year. It represents a market in equilibrium. See SRIA Section 6.1 for a discussion of likely adjustments to this equilibrium that could not be explicitly modeled. Other baseline conditions include current indoor, outdoor, mixed-light, and nursery production costs and returns. Baseline production costs and input use are established from a cultivator survey and supplemental published studies. Baseline production returns are established from a cultivator survey, supplemental published studies, and limited available market data. The share of indoor, outdoor, mixed-light, and nursery cultivators is established from a comprehensive data gathering effort and analysis of cultivation data.

### 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

Alternative 1. Considers a flat licensing and application fee structure. The net economic impact is less than the preferred alternative, including 108 fewer jobs and \$6.081 million less in value-added, representing a worse total economic outcome. The flat fee structure alternative 1 is rejected because the flat fee favors larger cultivators, and imposes more costs on small outdoor growers.

Alternative 2. Considers an increased violation fee structure for licensed cultivator that are out of compliance. The net economic impact is less than the preferred alternative, including 138 fewer jobs and \$10.318 million less in value-added, representing a worse total economic outcome. The higher fine structure regulatory alternative is rejected because higher fines increase the regulatory risk premium (see SRIA Section 4.1), which is a direct regulatory cost to cultivators. This is a disincentive to participating in the licensed market, thus undermining the effectiveness of the regulations. It is rejected on this basis.

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

The agency sought public input via three sources:

1. Scoping sessions for the Environmental Impact Report for Medical Cannabis Cultivation. Eight (8) public regulatory scoping sessions were held in September 2016. The agency took notes and summarized comments. The dates and times of each scoping session are included in the attached SRIA.
2. Surveys and data outreach. As part of the economic impact analysis the agency and its consultants engaged in cultivator and cannabis business surveys, conducted in person, on the web, and via telephone. The input from these surveys are summarized in the attached SRIA.
3. PEIR workshops held in July of 2017 (four sessions total). The agency took notes and summarized comments. The dates and times of each scoping session are included in the attached SRIA.

### 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 impact method relied on two linked models: First, an equilibrium displacement model of the cannabis market including different producers (indoor, outdoor, mixed-light) and consumers (medicinal, adult use, and unlicensed/unregulated). This model was used to evaluate the likely response of cultivators to changes in marginal production costs (from the regulations) that vary by cultivation technology. Second, a customized IMPLAN model of the cannabis producer sectors (indoor, outdoor, mixed-light) and linked ancillary industries. This model uses the EDM output as an input and was used to evaluate the indirect and induced impacts of the regulations by evaluating changes in linked industries.

Agency Signature



Date

1-5-18

Agency Head (Printed)

