STATE OF CALIFORNIA — DEPARTMENT OF FINANCE

MAJOR REGULATIONS STANDARDIZED REGULATORY IMPACT ASSESSMENT SUMMARY

DF-131 (NEW 11/13)

STANDARDIZED REGULATORY IMPACT ASSESSMENT SUMMARY

Agency (Department) Name	Contact Person	Mailing Address
California Department of Food and Agriculture	Dean Kelch	CDFA/PHPPS Permits and Regulation/Environmental Compliance/ PDAS 2800 Gateway Oaks, Suite 200 Sacramento, CA 95833
Email Address	Telephone Number	
dean.kelch@cdfa.ca.gov	(916) 403-6650	

1. Statement of the need for the proposed major regulation.

Regulations specifying the timeframes, procedures, methods, and confirmation for industrial hemp planting, sampling, laboratory testing, harvest, and destruction must be promulgated to allow industrial hemp crops grown by registered growers to be harvested. Currently interim, emergency regulations are in place that prescribe these processes. Before these emergency regulations expire, permanent regulations are needed that are consistent with recently amended state and federal laws and guidelines. Without sampling procedures and approved laboratories, registered growers cannot meet statutory requirements to allow harvest of their industrial hemp crop.

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.

CDFA estimates the direct costs for registered growers of industrial hemp for registration, sampling, testing, harvest and/or destruction to be between $4,030,209 to $7,284,637 for the first year.
CDFA estimates the direct cost for testing laboratories conducting THC analysis for industrial hemp to be between $388,454 and $517,346 each year.
CDFA estimates the direct costs to commissioners for training staff to collect samples and confirm the planting, testing, harvest, and destruction of industrial hemp grown by registered growers to be approximately $68,838 each year.
CDFA anticipates filling one vacant Environmental Scientist position as a 24-month limited term to handle the additional workload. The incurred cost for the additional staff member, estimated to be approximately $67,290 a year.

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).

Assuming the total hemp sales revenue to range between $10,773,630 – 113,257,620, the projected sales tax revenue estimates at 7.25 % from sales of hemp in California in the first year of implementation of the proposed regulations range from $781,088 to $8,211,178. This would result in an economic impact between $1,575,298 to 16,560,302 using the RMS II, Other crop farming 111900, Output multiplier. In addition, CDFA anticipates collecting approximately $472,500 in registration fees each year as a result of this regulation, assuming that registration activities will remain constant year to year.

4. Description of the 12-month period in which the agency estimates the economic impact of the proposed major regulation will exceed $50 million.

In the first year CDFA estimates the potential gross revenue for the 525 currently registered growers to range between $10,773,630 and $113,257,620. Based on the estimated potential gross revenue, the projected sales tax revenue estimated at 7.25 % from sales of hemp in California in the first year of implementation of the proposed regulations is expected to range from $781,088 to $82,111,774. Based 525 registered growers in California and the projected gross sales range with a multiplier of 14.667(3) per million dollars, we also expect an increase in jobs in the first year to be between 147 and 1,657.

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5. Description of the agency's baseline:

The gross revenue for registered growers is $0 for the baseline since they are unable to harvest absent of the proposed regulations.

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: CDFA considered allowing the registered grower to collect their own samples to minimize the sampling costs to registered growers. Growers would be responsible to collect samples in accordance with the proposed sampling requirement and deliver the samples to the testing laboratory for THC analysis.
Although this alternative would, if feasible, prove more cost effective for registered growers, it was abandoned because of concerns regarding regulatory action, specifically crop destruction, based on samples not taken by a regulatory official. This alternative likely would conflict with amended federal requirements. USDA's current sampling guidelines prohibit growers from collecting testing samples themselves.
Alternative 2: CDFA considered requiring the use of testing laboratories licensed by the Bureau of Cannabis Control (BCC). This alternative was abandoned because the alternative cause an unnecessary financial burden on the testing laboratories.

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

As part of the rulemaking process, and in keeping with state law (FAC Division 24), CDFA sought public input from stakeholders most affected by the proposed regulations through the Industrial Hemp Advisory Board (IHAB) meetings. Existing law established an Industrial Hemp Advisory Board (IHAB) composed of 13 members that represent and further the interests of the industrial hemp industry (FAC Section 81001). The purpose of the IHAB is to advise the Secretary and make recommendations on matters pertaining to Division 24, including the establishment of timeframes, procedures, methods, and confirmation for industrial hemp planting, sampling, laboratory testing, harvest, and destruction. The IHAB held nine meetings and one task force meeting to discuss sampling, laboratory testing protocols, and crop destruction standards in 2017 and 2018, that resulted in several recommendations to the Secretary of the CDFA.

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).

CDFA based estimates of the number of various entities directly impacted by the proposed regulations on current registration activities as of June 11, 2020. CDFA used data collected from the first 12 months that registration for industrial hemp became available (April 30, 2019 – April 29, 2020), also referred as the first growing year, to make good faith estimates regarding the costs and benefits of implementing the proposed regulations. CDFA also relied on data available in the federal interim final rule.
CDFA used the Regional Input-Output Modeling System (RIMS II) to objectively assess the potential economic impacts of the proposed regulations. The RIMS II provides multipliers to estimate of the spin-off activity generated in other parts of the economy resulting from direct changes in the industry.

Agency Signature	Date
Kevin Masuhara	8/13/2020

Agency Head (Printed)

Kevin Masuhara, Deputy Secretary