

Governor's 2017-18 May Revision Cannabis-Related Proposals

L E G I S L A T I V E A N A L Y S T ' S O F F I C E

Presented to:
Senate Budget and Fiscal Review Committee
Hon. Holly J. Mitchell, Chair





May Revision Proposes \$43 Million for Cannabis-Related Regulatory Activities

Governor’s 2017-18 May Revision Budget Proposals for Cannabis

(In Millions)

| Department | 2017-18 | 2018-19 | 2019-20 | 2020-21 and Ongoing |
|-------------------------------------|---------------|---------------|---------------|---------------------|
| Fish and Wildlife | \$17.2 | \$13.3 | \$13.3 | \$10.3 |
| State Water Resources Control Board | 9.8 | 13.5 | 13.5 | 12.8 |
| Public Health | 9.3 | 8.3 | 8.7 | 8.0 |
| Food and Agriculture | 3.9 | 1.3 | 1.3 | — |
| Pesticide Regulation | 1.3 | 2.3 | 2.3 | — |
| Cannabis Control Appeals Panel | 1.0 | 1.1 | 1.1 | 1.1 |
| Consumer Affairs | 0.7 | 0.7 | 0.7 | — |
| Totals | \$43.2 | \$40.5 | \$40.9 | \$32.2 |

- The Governor’s May Revision proposes 201 positions and \$43.2 million across seven state departments in 2017-18 for cannabis regulation and enforcement-related activities.
- These resources would be funded primarily from the Cannabis Control Fund, which would receive a General Fund loan in 2017-18.



May Revision Adds to Previous Budget Requests

| Summary of Cannabis-Related Funding and Positions in 2017-18 | | | | |
|---|-----------------|-------------------------------------|---------------|----------------|
| <i>(Dollars in Millions)</i> | | | | |
| Funding | | | | |
| Department | Baseline | Governor's 2017-18 Proposals | | Total |
| | | January | May | |
| Food and Agriculture | \$3.4 | \$22.4 | \$3.9 | \$29.6 |
| Consumer Affairs | 4.0 | 22.5 | 0.7 | 27.2 |
| Fish and Wildlife | 5.8 | — | 17.2 | 23.0 |
| State Water Resources Control Board | 6.7 | — | 9.8 | 16.5 |
| Public Health | 2.5 | 1.0 | 9.3 | 12.8 |
| Board of Equalization | 0.0 | 5.4 | — | 5.4 |
| Pesticide Regulation | 0.7 | — | 1.3 | 2.0 |
| Cannabis Control Appeals Panel | — | — | 1.0 | 1.0 |
| Totals | \$23.0 | \$51.4 | \$43.2 | \$117.6 |
| Positions | | | | |
| Department | Baseline | Governor's 2017-18 Proposals | | Total |
| | | January | May | |
| Food and Agriculture | 18.0 | 50.8 | 10.0 | 78.8 |
| Consumer Affairs | 33.0 | 120.0 | 5.0 | 158.0 |
| Fish and Wildlife | 31.0 | — | 63.0 | 94.0 |
| State Water Resources Control Board | 35.0 | — | 65.0 | 100.0 |
| Public Health | 16.0 | -3.0 | 50.0 | 63.0 |
| Board of Equalization | — | 22.0 | — | 22.0 |
| Pesticide Regulation | 3.0 | — | — | 3.0 |
| Cannabis Control Appeals Panel | — | — | 8.0 | 8.0 |
| Totals | 136.0 | 189.8 | 201.0 | 526.8 |

- The May Revision resources proposed are in addition to those proposed in the Governor's January budget, as well as resources provided in the *2016-17 Budget Act*. In total, the previously approved and currently proposed resources would provide state departments with \$118 million and 527 positions for 2017-18.



LAO Overarching Comments



Make Key Policy Choices Before Finalizing Budget

Decisions. To the extent possible, make key policy choices regarding how the cannabis industry will be regulated before finalizing budget decisions. This is because the Legislature's policy choices will affect the level of resources state agencies need to implement their programs in some cases.



Limit Funding Provided for Out Years.

Limit the amount of out-year funding provided to departments given the high level of uncertainty regarding future workloads. Under this more incremental funding approach, the Legislature can revisit the appropriate funding level and sources for these positions in the future as the cannabis industry and the departments' regulatory and enforcement programs continue to develop.



LAO Recommendations on Individual Proposals

- Resources for Three Departments Affected by Policy Choices.*** We recommend that certain components of the administration's May Revision proposals for the Department of Consumer Affairs, Department of Food and Agriculture, and Department of Public Health (DPH) be considered in the context of pending policy decisions. For example, roughly \$3 million of the requested funding for these departments in 2017-18 is related to implementing an administration proposal to require certain individual licensees to comply with California Environmental Quality Act (CEQA) requirements where local ordinances do not exist. The level of resources needed to complete compliance reviews of these CEQA-related activities could be significantly different if the Legislature makes a different policy choice.

- Resources for Two Departments Should Be Limited in Out Years.*** We recommend that some or all of the resources requested for DPH and the State Water Resources Control Board (SWRCB) proposals be approved on a three-year limited-term basis given the high level of uncertainty regarding future workloads for these departments. In addition, we recommend the Legislature reject out-year increases proposed for SWRCB, as well as modify proposed budget bill language providing administrative authority to increase DPH funding in 2017-18.

- Other Proposals Appear Reasonable.*** We do not raise concerns with the proposals from the Department of Fish and Wildlife (DFW), Department of Pesticide Regulation (DPR), or Cannabis Control Appeals Panel (Panel). These proposals appear to be based on reasonable assumptions of workload. Moreover, these departments are already requesting some or all of their funding on a three-year limited-term basis (DFW and DPR), or the requested funding is for clearly ongoing workload (Panel).