

Michigan Office of Administrative Hearings and Rules

Administrative Rules Division (ARD)

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**REGULATORY IMPACT STATEMENT
and COST-BENEFIT ANALYSIS (RIS)**

Agency Information:

Department name:

Licensing and Regulatory Affairs

Bureau name:

Marihuana Regulatory Agency

Name of person filling out RIS:

JESSICA FOX

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Rule Set Information:

ARD assigned rule set number:

2020-121 LR

Title of proposed rule set:

Marihuana Licenses

Comparison of Rule(s) to Federal/State/Association Standard

1. Compare the proposed rules to parallel federal rules or standards set by a state or national licensing agency or accreditation association, if any exist.

There are no federal rules or standards for the regulation of marihuana. There are no other state or national licensing agency standards or accreditation standards for marihuana.

A. Are these rules required by state law or federal mandate?

These rules are required by the Medical Marihuana Facilities Licensing Act and the Michigan Regulation and Taxation of Marihuana Act. There is no federal mandate for these rules. Portions of these rules are required by Public Act 207 of 2020 and Public Act 208 of 2020.

B. If these rules exceed a federal standard, please identify the federal standard or citation, describe why it is necessary that the proposed rules exceed the federal standard or law, and specify the costs and benefits arising out of the deviation.

These rules do not exceed any federal standards or laws. There are no federal standards or laws in place.

2. Compare the proposed rules to standards in similarly situated states, based on geographic location, topography, natural resources, commonalities, or economic similarities.

Michigan’s licensing and regulatory framework is similar to programs in other Great Lakes and surrounding states. Michigan has one of the country’s largest patient populations registered with its medical marihuana program, which will presumptively create the consumer base for marihuana businesses. The other states have a tenth of the patient population that Michigan has. On March 6, 2019, the taxation of medical marihuana ceased per Sec. 601 of the Medical Marihuana Facilities Licensing Act which nullifies the tax with the enactment of a law authorizing the recreational or nonmedical use of marihuana in this state. With the enactment of the Michigan Regulation and Taxation of Marihuana Act (MRTMA), there is an excise tax on marihuana retailers and marihuana microbusinesses at the rate of 10% of the sales price of the marihuana sold. The tax in Illinois is 7% at cultivators/dispensaries. Pennsylvania has a 5% excise tax on gross receipts of dispensaries. Minnesota has a \$3.50 tax on each gram. Ohio does not have an excise tax on medical marihuana. The other programs also have similar licensing categories; however, Michigan is unique with a transporter license available. The only other Great Lakes state that allows recreational/adult-use marijuana is Illinois. Illinois’ Cannabis Regulation and Tax Act (ICRTA) took effect January 1, 2020. The Illinois Cannabis Regulation and Tax Act is comparable to the MRTMA in that it creates personal possession limits and allows for individuals to cultivate a specific number of plants for themselves. The ICRTA also creates comparable license types to MRTMA.

A. If the rules exceed standards in those states, please explain why and specify the costs and benefits arising out of the deviation.

The rule changes do not exceed the scope of licensing requirements of other states where licensure is required.

3. Identify any laws, rules, and other legal requirements that may duplicate, overlap, or conflict with the proposed rules.

The proposed rule changes do not duplicate, overlap, or conflict with any laws, rules, or other legal requirements.

A. Explain how the rules have been coordinated, to the extent practicable, with other federal, state, and local laws applicable to the same activity or subject matter. This section should include a discussion of the efforts undertaken by the agency to avoid or minimize duplication.

The rules continue to work in conjunction with the Medical Marijuana Program rules. The rules have been streamlined to avoid duplication.

4. If MCL 24.232(8) applies and the proposed rules are more stringent than the applicable federally mandated standard, provide a statement of specific facts that establish the clear and convincing need to adopt the more stringent rules.

MCL 24.232(8) does not apply; there is no applicable federally mandated standard.

5. If MCL 24.232(9) applies and the proposed rules are more stringent than the applicable federal standard, provide either the Michigan statute that specifically authorizes the more stringent rules OR a statement of the specific facts that establish the clear and convincing need to adopt the more stringent rules.

MCL 24.232(9) does not apply; there is no applicable federal standard.

Purpose and Objectives of the Rule(s)

6. Identify the behavior and frequency of behavior that the proposed rules are designed to alter.

The rule changes are designed to create greater consistency in the licensing process for marihuana businesses and to create cohesion between license issuance for medical and adult-use marihuana businesses. These decisions are made daily by agency licensing staff. The rule changes are also intended to create clear and consistent operational standards for marihuana businesses.

A. Estimate the change in the frequency of the targeted behavior expected from the proposed rules.

The rule changes should change or create more consistency in every decision made by the agency.

B. Describe the difference between current behavior/practice and desired behavior/practice.

These rule changes will create a quicker and more consistent process for licensing decisions and provide more transparency to applicants and licensees about requirements for licensure and renewal.

C. What is the desired outcome?

The desired outcome is to achieve greater consistency in the issuance and renewal of licenses for marihuana related business for both the medical and adult-use markets.

7. Identify the harm resulting from the behavior that the proposed rules are designed to alter and the likelihood that the harm will occur in the absence of the rule.

The harm that will result is that licenses and renewals are not granted in a timely fashion, and applicants/licensees will struggle with understanding the necessary requirements. Businesses will not be able to continue to operate or begin operating. Businesses may fail. There is also a risk that licensees will not be evaluated based upon the same criteria. This will affect consumer safety if all businesses are not held to the same standards. In the absence of these rule changes this harm is likely to occur on a regular basis.

A. What is the rationale for changing the rules instead of leaving them as currently written?

The rationale for changing these rules is to create greater consistency and transparency in licensing practices for all marihuana businesses. These updates are necessary to increase consistency and transparency.

8. Describe how the proposed rules protect the health, safety, and welfare of Michigan citizens while promoting a regulatory environment in Michigan that is the least burdensome alternative for those required to comply.

The proposed rule changes help ensure that only eligible individuals obtain licenses and retain licenses to grow, process, test, transport, and sell marihuana products to residents of the state of Michigan. The proposed rule changes contain specific criteria to ensure that individuals who are issued licenses are likely to be compliant with all the administrative rules regulating marihuana businesses, including safety testing standards that protect the public health, safety, and welfare.

9. Describe any rules in the affected rule set that are obsolete or unnecessary and can be rescinded.

These rules are updating the Marihuana Licenses Rule Set (R 420.1 to R 420.29). The proposed rule changes do not make any other rules obsolete, unnecessary, or proper for rescission.

Fiscal Impact on the Agency

Fiscal impact is an increase or decrease in expenditures from the current level of expenditures, i.e. hiring additional staff, higher contract costs, programming costs, changes in reimbursements rates, etc. over and above what is currently expended for that function. It does not include more intangible costs for benefits, such as opportunity costs, the value of time saved or lost, etc., unless those issues result in a measurable impact on expenditures.

10. Please provide the fiscal impact on the agency (an estimate of the cost of rule imposition or potential savings for the agency promulgating the rule).

There will be no fiscal impact on the agency. The agency already manages both medical marihuana facilities licensing and adult-use marihuana licensing.

11. Describe whether or not an agency appropriation has been made or a funding source provided for any expenditures associated with the proposed rules.

No appropriations have been made to any governmental units because of these rule changes. No additional expenditures are anticipated or intended with the proposed rules.

12. Describe how the proposed rules are necessary and suitable to accomplish their purpose, in relationship to the burden(s) the rules place on individuals. Burdens may include fiscal or administrative burdens, or duplicative acts.

The rules must ensure the safety, security, and integrity of the operation of marihuana businesses. Any burdens would be in place as required by the MMFLA, MTA, and MRTMA. The application/licensing process requires documentation, fingerprinting, etc. that will be at a financial and administrative cost. There are rules required for the use of a statewide monitoring system which will place a burden on the individual but is statutorily required. These items are already in place so there will be no increased burden.

A. Despite the identified burden(s), identify how the requirements in the rules are still needed and reasonable compared to the burdens.

The rules must ensure the safety, security, and integrity of the operation of marihuana businesses. Any burden is reasonable in the proposed rule changes as it complies with the statutory requirement for its consideration.

Impact on Other State or Local Governmental Units

13. Estimate any increase or decrease in revenues to other state or local governmental units (i.e. cities, counties, school districts) as a result of the rule. Estimate the cost increases or reductions for other state or local governmental units (i.e. cities, counties, school districts) as a result of the rule. Include the cost of equipment, supplies, labor, and increased administrative costs in both the initial imposition of the rule and any ongoing monitoring.

There are no anticipated increases or decreases in revenues or costs to other state or local government units because of the proposed rule changes. Any local or state change to revenue may occur via the statutory provisions as it concerns how the funds, fees, or taxes are allocated or expended. The agency is required to set an application fee pursuant to the MMFLA and MRTMA and has set the fee at \$3,000 to offset the background investigations, administration of the licensing application, etc. The other statutory imposed fee is the annual regulatory assessment/renewal fee set forth in the MMFLA and MRTMA which will be deposited in the marihuana regulatory fund.

14. Discuss any program, service, duty, or responsibility imposed upon any city, county, town, village, or school district by the rules.

There is no additional responsibility imposed upon any city, county, town, village, or school district by the proposed rule changes.

A. Describe any actions that governmental units must take to be in compliance with the rules. This section should include items such as record keeping and reporting requirements or changing operational practices.

There are no anticipated actions that a governmental unit must take to comply with these proposed rule changes.

15. Describe whether or not an appropriation to state or local governmental units has been made or a funding source provided for any additional expenditures associated with the proposed rules.

No appropriations have been made to any governmental units because of these rule changes. No additional expenditures are anticipated or intended with the proposed rule changes.

Rural Impact

16. In general, what impact will the rules have on rural areas?

The proposed rule changes are not expected to impact rural areas in as much as the rule changes apply to all marihuana businesses regardless of location.

A. Describe the types of public or private interests in rural areas that will be affected by the rules.

The proposed rule changes are not expected to affect public or private interests in rural areas.

Environmental Impact

17. Do the proposed rules have any impact on the environment? If yes, please explain.

These proposed rule changes do not have any impact on the environment.

Small Business Impact Statement

18. Describe whether and how the agency considered exempting small businesses from the proposed rules.

The proposed rule changes are designed to regulate all commercial marihuana businesses, regardless of their size. They are intended to allow any business, including a small business, to obtain a license in the industry.

19. If small businesses are not exempt, describe (a) the manner in which the agency reduced the economic impact of the proposed rules on small businesses, including a detailed recitation of the efforts of the agency to comply with the mandate to reduce the disproportionate impact of the rules upon small businesses as described below (in accordance with MCL 24.240(1)(a-d)), or (b) the reasons such a reduction was not lawful or feasible.

The license types available are available to small businesses. These rule changes, however, are intended to broadly lay out the criteria for a marihuana business to obtain a license. They do not target small businesses, nor do they negatively impact them exclusively. The annual regulatory assessments are reduced for those license types that are more likely to be held by small businesses.

A. Identify and estimate the number of small businesses affected by the proposed rules and the probable effect on small businesses.

It is uncertain how many small businesses may be affected by the proposed rule changes. However, the belief is that these proposed rule changes will make it easier for small businesses to enter into the regulated marijuana market.

B. Describe how the agency established differing compliance or reporting requirements or timetables for small businesses under the rules after projecting the required reporting, record-keeping, and other administrative costs.

The agency did not establish separate compliance or reporting requirements for small businesses. The proposed rule changes will apply to all applicants and licensees across the license categories, as applicable. The rule changes were drafted to be the least burdensome on all applicants and licensees.

C. Describe how the agency consolidated or simplified the compliance and reporting requirements for small businesses and identify the skills necessary to comply with the reporting requirements.

The agency did not consolidate or simplify compliance and reporting requirements for small businesses with the proposed rule changes.

D. Describe how the agency established performance standards to replace design or operation standards required by the proposed rules.

The agency did not establish performance standards to replace design or operation standards required by these rule changes.

20. Identify any disproportionate impact the proposed rules may have on small businesses because of their size or geographic location.

The proposed rule changes affect applicants and/or licensees rather than specifically small businesses. Therefore, there is no disproportionate effect on a small business because of its size or geographic location.

21. Identify the nature of any report and the estimated cost of its preparation by small businesses required to comply with the proposed rules.

The requirements of the proposed rule changes apply to all applicants and licensees based on license type. The only report required of a small business, is the Annual Financial Statement, which is required to be filed by all licensees. The cost of the report is set by the accounting business that is engaged to prepare it for the licensee.

22. Analyze the costs of compliance for all small businesses affected by the proposed rules, including costs of equipment, supplies, labor, and increased administrative costs.

There will be no increased costs of compliance for a small business related to the costs of equipment, supplies, or administrative costs.

23. Identify the nature and estimated cost of any legal, consulting, or accounting services that small businesses would incur in complying with the proposed rules.

Small businesses will not incur any costs of legal, consulting, or accounting services to comply with the rule changes other than what any marijuana business would incur.

24. Estimate the ability of small businesses to absorb the costs without suffering economic harm and without adversely affecting competition in the marketplace.

There are no expected costs to a small business that will cause economic harm to a small business or the marketplace because of the proposed rule changes.

25. Estimate the cost, if any, to the agency of administering or enforcing a rule that exempts or sets lesser standards for compliance by small businesses.

The proposed rule changes apply to all applicants and licensees, regardless of size or geographic location. Therefore, exempting or setting lesser compliance standards for small businesses could create a potential threat to health and safety of the state of Michigan.

26. Identify the impact on the public interest of exempting or setting lesser standards of compliance for small businesses.

The proposed rule changes apply to all applicants and licensees, regardless of size or geographic location. Therefore, exempting or setting lesser compliance standards for small businesses could create a potential threat to health and safety of the state of Michigan.

27. Describe whether and how the agency has involved small businesses in the development of the proposed rules.

Workgroups were conducted that were comprised with varying levels of business owners, from small or large businesses and members of the public and they made recommendations to the Agency. Small businesses were not exclusively included or excluded by the very nature of being a small business.

A. If small businesses were involved in the development of the rules, please identify the business(es).

Small business was involved in the development of rule changes only in as much as making recommendations during the workgroups to the Board and not specifically to the agency on specifics concerning the proposed rule changes.

Cost-Benefit Analysis of Rules (independent of statutory impact)

28. Estimate the actual statewide compliance costs of the rule amendments on businesses or groups.

The MMFLA and MRTMA require the agency to promulgate rules that ensure the safety, security, and integrity of the operation of marihuana businesses. The statutes also require licensees to comply with standards and requirements for marihuana businesses. There are costs associated with the statutory requirements implemented through the proposed rule changes. This is an existing program, so the actual costs are already in place. These rule changes will not increase or decrease the compliance costs.

A. Identify the businesses or groups who will be directly affected by, bear the cost of, or directly benefit from the proposed rules.

The rule changes apply to applicants and licensees. There could be additional businesses or groups affected by, bear the cost of, or directly benefit from the proposed rule changes. Examples may be CPAs, lab equipment companies, surveillance equipment companies, third-party integrators, and point of sale companies.

B. What additional costs will be imposed on businesses and other groups as a result of these proposed rules (i.e. new equipment, supplies, labor, accounting, or recordkeeping)? Please identify the types and number of businesses and groups. Be sure to quantify how each entity will be affected.

No additional cost will be imposed on businesses or other groups. Only applicants and licensees are affected by the proposed rule changes.

29. Estimate the actual statewide compliance costs of the proposed rules on individuals (regulated individuals or the public). Include the costs of education, training, application fees, examination fees, license fees, new equipment, supplies, labor, accounting, or recordkeeping.

The application fee in these rule changes is reduced from \$6,000 to \$3,000. The annual regulatory assessment is determined by the agency on an annual basis and in rule.

The new proposed annual regulatory assessments for licensees under MRTMA is set as follows:

- Class A Marihuana Grower: \$1,200
- Class B Marihuana Grower: \$6,000
- Class C Marihuana Grower: \$24,000
- Designated Consumption Establishment: \$1,000
- Marihuana Microbusiness: \$8,300
- Class A Marihuana Microbusiness: \$8,600
- Marihuana Processor: \$24,000
- Marihuana Retailer: \$15,000
- Marihuana Safety Compliance Facility: \$15,000
- Marihuana Secure Transporter: \$15,000

The current annual regulatory assessments for licensees under MMFLA is set as follows:

State Operating License Type	New License	Top Tier Renewal	Middle Tier Renewal	Bottom Tier Renewal	Grower
Class A	\$7,000	\$9,333	\$7,000	\$4,667	
Grower Class B	\$14,000	\$18,667	\$14,000	\$9,333	
Grower Class C	\$21,000	\$28,000	\$21,000	\$14,000	Processor
	\$13,125	\$17,500	\$13,125	\$8,750	Provisioning Center
Secure Transporter	\$13,125	\$17,500	\$13,125	\$8,750	
Safety Compliance Facility	No fee	No fee	No fee	No fee	

A. How many and what category of individuals will be affected by the rules?

The rule changes reduce the application fee for applicants moving forward, and reduce the annual regulatory assessments due from licensees under the MRTMA.

B. What qualitative and quantitative impact do the proposed changes in rules have on these individuals?

This licensed and regulated industry could have an impact on the cost and sale of medical marijuana, and whether someone chooses to become a medical marijuana patient with adult-use marijuana available.

30. Quantify any cost reductions to businesses, individuals, groups of individuals, or governmental units as a result of the proposed rules.

The proposed rule changes impact applicants and licensees. A cost reduction that could apply is that the application fee could be reduced if the applicant is applying for numerous licenses. (The regulatory assessment will not be reduced however).

31. Estimate the primary and direct benefits and any secondary or indirect benefits of the proposed rules. Please provide both quantitative and qualitative information, as well as your assumptions.

a) Establish qualifications and restrictions for persons participating in or involved with operating marijuana businesses. This is important to protect the integrity of the marijuana industry.

b) Establish minimum levels of insurance that licenses must maintain. By carrying insurance, licensees are protected against the cost of compensation claims made by consumers arising due to defective marijuana products causing harm to consumers.

32. Explain how the proposed rules will impact business growth and job creation (or elimination) in Michigan.

The licensing and regulatory framework that is created will establish a commercial supply and distribution mechanism for marijuana. The license categories create new businesses in the industry that otherwise were not licensed or regulated – and will impact business growth and job creation specifically for those interacting with the licensed marijuana business.

33. Identify any individuals or businesses who will be disproportionately affected by the rules as a result of their industrial sector, segment of the public, business size, or geographic location.

The proposed rule changes specifically focus on the marijuana industrial sector as they implement aspects of the regulatory framework as required by the MMFLA and MRTMA. The operation of these businesses impacts the marijuana customer segment of the public through increased access to marijuana that has been tracked, tested, and labeled to ensure safety for customers. There is no expected disproportionate affect due to business size or geographic location.

34. Identify the sources the agency relied upon in compiling the regulatory impact statement, including the methodology utilized in determining the existence and extent of the impact of the proposed rules and a cost-benefit analysis of the proposed rules.

Sources from other states are the following:

Illinois:

<https://www2.illinois.gov/rev/research/taxinformation/other/Pages/Cannabis-Taxes.aspx>

<https://www.ilga.gov/legislation/ilcs/ilcs3.asp?ActID=3503&ChapterID=35>

Minnesota:

<https://www.revisor.mn.gov/statutes/cite/297D.08>

<https://www.revisor.mn.gov/laws/?id=311&year=2014&type=0>

Ohio:

<https://mjbizdaily.com/ohio-mmj-market-could-generate-200m-400m-in-sales/>

[https://www.medicalmarijuana.ohio.gov/Documents/advisory-committee/Meeting%20Materials/2021-17%20\(June\)MMAC%20Updates%20June%202021.pdf](https://www.medicalmarijuana.ohio.gov/Documents/advisory-committee/Meeting%20Materials/2021-17%20(June)MMAC%20Updates%20June%202021.pdf)

<https://www.medicalmarijuana.ohio.gov/rules>

Pennsylvania:

<https://www.revenue.pa.gov/FormsandPublications/FormsforBusinesses/MedicalMarijuanaTax/Pages/default.aspx>

<https://www.pa.gov/guides/pennsylvania-medical-marijuana-program/>

OTHER:

<https://www.leafly.com/news/industry/state-by-state-guide-to-cannabis-advertising-regulations>

House Fiscal Agency and Senate/Department Reports/LAB coalition

A. How were estimates made, and what were your assumptions? Include internal and external sources, published reports, information provided by associations or organizations, etc., that demonstrate a need for the proposed rules.

There were no estimates made because the rule changes impact an individual licensee or registrant as well as applicant for licensure or registration. No estimate could consider the setting where an individual may use his or her license or registration. Because the rule changes only impact an individual, and impact all in the same way, the assumptions made was that no additional cost or benefit would result from the proposed rule changes.

Alternative to Regulation

35. Identify any reasonable alternatives to the proposed rules that would achieve the same or similar goals.

The rules are required by the MMFLA and MRTMA; there is no reasonable alternative to the proposed rule changes.

A. Please include any statutory amendments that may be necessary to achieve such alternatives.

The rulemaking provisions of the MMFLA and MRTMA would have to be removed for any such alternative to occur.

36. Discuss the feasibility of establishing a regulatory program similar to that proposed in the rules that would operate through private market-based mechanisms. Please include a discussion of private market-based systems utilized by other states.

The rules are required by the MMFLA and MRTMA; private market-based systems cannot serve as an alternative.

37. Discuss all significant alternatives the agency considered during rule development and why they were not incorporated into the rules. This section should include ideas considered both during internal discussions and discussions with stakeholders, affected parties, or advisory groups.

Since the rules are specifically required by the MMFLA and MRTMA, there are no alternatives to the proposed rule changes that the agency could consider. They are necessary to ensure the safety, security, and integrity of the operation of marijuana facilities.

Additional Information

38. As required by MCL 24.245b(1)(c), please describe any instructions regarding the method of complying with the rules, if applicable.

There are no additional instructions for complying with the proposed rule changes.