

Manufacturing Facility Cost Structure Analysis

The following analysis has been done at the request of the Economic Affairs Interim Committee. The request was to identify the costs associated for the Cannabis Control Division to license and inspect the marijuana manufacturing facilities, and to identify a licensing structure that covers the department's costs for these activities.

Assumptions:

1. The Cost Structure analysis estimates the Manufacturing Facility Licensing fees necessary for the Cannabis Control Division (CCD) to breakeven with the costs required to regulate the Manufacturing Facility Registered Premise Program.
2. The Division Cost Base utilized in the analysis was determined by calculating the average of the CCD budget for Fiscal Years 2022 and 2023. CCD 2022 Fiscal Year Budget (\$5,539,246) was averaged with the projected CCD 2023 Fiscal Year Budget (\$4,777,047) to calculate an Overall Division Cost Base (\$5,158,146) used in the analysis. *CCD Budget and Expenses_ FY2022 and FY2023 Table* shown below:

CCD Budget and Expenses_ FY2022 and FY2023			
	FY2022	FY2023	FY22 and FY23 Avg.
Personal Services Budget	\$2,134,050	\$2,928,185	\$2,531,118
Operating Budget	\$1,424,230	\$805,644	\$1,114,937
Paid / estimate of what we will pay to Seed-to-Sale Tracking System	\$764,254	\$804,000	\$784,127
Seed-to-Sale Tracking System Shortfall/Supplemental Needed	\$1,216,711	\$239,217	\$727,964
Personal, Operating, and IT Contracts_ Sum	\$4,322,535	\$4,537,829	\$4,430,182
Sum of Expenditures	\$5,539,246	\$4,777,047	\$5,158,146

3. The Cost Structure analysis allocates 15% of the overall division costs (\$773,722) to administer the Registered Cardholder and Worker Permit Programs. 85% of the Division Costs (\$4,384,424) are allocated to the administration of the Business Licensing and Inspection Programs consisting of Cultivation, Dispensary, Manufacturing and Transporter Licenses. *Division Cost Allocation Table* shown below:

Division Cost Allocation Sum	Registered Cardholders_ Worker Permits	Business Licenses_ Premise Inspections
\$5,158,146	\$773,722	\$4,384,424
Cost Allocations:	15%	85%

4. The costs allocated to the Manufacturing Licensing and Inspection Programs were determined by first allocating 85% of

the division's budget to Business Licensing and Inspection (\$4,384,424), then taking 20% of this total (\$876,885) and distributing it to cover the costs of the licensing and inspecting of manufacturing facilities. *Manufacturing Facility Program Cost Allocation Table* shown below:

Manufacturing Facility Program Cost Allocation Table		
Registered Cardholder and Worker Permit Program	Business Licenses_ Premise Inspections_ Division Cost Allocation	Division Cost Allocation Sum
\$773,722	\$4,384,424	\$5,158,146
Cost Allocation Ratio:	20%	
Cost Allocation Sum:	\$876,885	

5. Business License Type Allocations were calculated utilizing the ratios of Cultivation, Dispensary, Manufacturing, and Transporter License Site Counts relative to the Business License Type Site Count Overall (1,051 Sites). 20.27% of the Overall Business Sites as of 8/1/2022 were Manufacturer Sites (213 Sites). The division costs allocated to regulate Manufacturing Facilities was rounded to 20.0%. *Site and estimated Inspection Count Table* shown below:

Notes:	Site Type	Site Counts	Estimated Inspections Per Year (2x)	Estimated Follow-up Inspections(20%)	Inspection Sum	Inspection Sum Rounded (to nearest 100)	Inspection Ratios
	Cultivator	393	786	157.2	943.2	900	37.50%
	Dispensary	435	870	174	1044	1000	41.67%
	Manufacturer	213	426	85.2	511.2	500	20.83%
HHS Inspects	Testing Lab	4	-	-	-	-	-
HHS Inspects	Testing Lab Storage Facility	2	-	-	-	-	-
Limited Inspection Counts due to Low Site Quantity	Transporter	4	8	1.6	9.6	0	0.00%
Estimated Totals:		1,051	2090		2508	2400	

6. Annual Estimated Inspection Counts for Manufacturing Facilities were utilized as a Cost-Allocation base to determine Licensing

Fees for this license type that would allow the division to cover their Costs to regulate Manufacturing Facilities.

7. CCD estimates approximately 500 inspections of Manufacturing Facilities will be completed in Calendar Year 2022. This number was estimated projecting 1 Renewal and 1 Mid-Year inspection per site per year, with approximately 20% of inspections requiring an additional follow-up inspection to ensure deficiencies have been corrected. ((213 Sites x 2 per year (Renewal and Mid-Year) = 426 Inspections)). (426 Inspections x 20% Follow-up Rate = 85 Follow-Ups). (85 + 426 = 511 Inspections Per Year, Rounded to the nearest 100 = 500 Manufacturing Facility Inspections Per Year Total). *Site and estimated Inspection Count Table* shown with Assumption #5 description above.
8. Of the estimated 500 Manufacturing Facility Inspections completed in 2022, CCD estimates approximately 450 will be Tier 1 Manufacturing Facilities, 30 will be Tier 2, and 20 will be Tier 3. *Estimated Manufacturing Inspections Per Tier Level (as of 12/31/22) Table* shown below:

Estimated Manufacturing Inspections Per Tier Level (as of 12/31/22)		
Tier 1	90%	450
Tier 2	6%	30
Tier 3	4%	20
Totals:	100%	500

9. A Site Adjustment Factor was applied to the different Tier Levels to calculate the Divisions' Cost to Regulate Manufacturing Facilities at each Tier Level. Site Adjustment Factors include variables that differentiate the Cost to Regulate each Tier Level. Site Adjustment Factors include, but are not limited to: Pre-Inspection, Post-Inspection, Product Volume, Package Tracing

and License Application work associated with Manufacturing Licenses. *Manufacturing Facility_ Cost to Regulate Allocation Table_ Site Adjustment Factors Table* shown below:

Manufacturing Facility_ Cost to Regulate Allocation Table_ Site Adjustment Factors				
Manufacturing Tier Levels Currently Available	Flat estimated Cost per Mnfg Site Inspection (NO variance_ Cost per Inspection to Breakeven with Program Allocation)	Site Adjustment Factor Variables: Pre and Post Inspection Work, Inspection Count per year ,Product Volume, Package Tracing and License App. Work.	Site Adjustment Factors	Cost to Regulate Manufacturing Site_ Site Adjustment Factor Rounded (to nearest \$1,000)
Tier 1	\$1,754	\$3,508	2	\$4,000
Tier 2	\$1,754	\$7,015	4	\$7,000
Tier 3	\$1,754	\$10,523	6	\$11,000

10. Given factors previously mentioned in this narrative, CCD estimates the Annual Cost to Regulate a Tier 1 Manufacturing License to be \$4,000 per License, \$7,000 per Tier 2 License, and \$11,000 per Tier 3 License. The Annual License Fee collection amounts projected at these estimated costs to regulate per Tier Level total \$940,000. This estimated License Fee collection amount for CY 2022 would lead to a Manufacturing Program Surplus of \$63,115 when compared to the \$876,885 allocated to regulate this License Type. *Manufacturing Facility_ Cost to Regulate Allocation Table_ Estimated CY2022 Program Balance* shown below:



Manufacturing Facility_ Cost to Regulate Allocation Table_ Estimated CY2022 Program Balance				
Manufacturing Tier Levels Currently Available	Cost to Regulate Manufacturing Site_ Site Adjustment Factor Rounded (to nearest \$1,000)	Mnfg. Site Counts per Tier (Rounded to nearest 10)	Estimated License Fee Sums Required to Cover Cost to Regulate License Type	Annual Division Cost Allocated to Mnfg. Premise Program
Tier 1	\$4,000	190	\$760,000	\$876,885
Tier 2	\$7,000	10	\$70,000	Estimated Mnfg. Program Surplus*
Tier 3	\$11,000	10	\$110,000	\$63,115
License Fee Sum Total (Required to Cover Costs):			\$940,000	*Estimated Surplus could grow substantially when taking into account the potential Overage Penalties for producing Greater than 15 pounds per month

