



BUREAU OF FIREARMS
P.O. Box 160487
SACRAMENTO, CA.95816-0487
Telephone: (916) 210-2364
E-Mail Address: Jacqueline.Dosh@doj.ca.gov

July 21, 2021

Somjita Mitra
Chief Economist
California Department of Finance
915 L Street
Sacramento, CA 95814

RE: Standardized Regulatory Impact Assessment
Dealer Record of Sale (DROS) Fee Regulation

Dear Ms. Mitra:

Thank you for your letter dated June 24, 2021, providing comments on the Standardized Regulatory Impact Assessment (SRIA) for the proposed regulations regarding the Dealer Record of Sale (DROS) Fee. Following are the California Department of Justice's responses to your comments.

Department of Finance Comment 1.

“First, the cost of lost revenue on long-guns must be quantified. The DROS fee represents an increase of between 1 percent and 8 percent in the purchase price of long-guns which mostly range in price from \$400 to \$3,000. This may cause some consumers to avoid purchases or choose alternative models which are cheaper in price to fit their budgets. This could be quantified by examining DROS sales data from when the pre-existing DROS fee was set at \$19 in 2004 to see what the price effects were on long-guns. The analysis on handguns can also be refined using this approach in order to verify that current assumptions, which are based on a study on data for the United States from 1961 to 1994, are reasonable. Alternatively if such data is not suitable or available, then a sensitivity analysis should be undertaken to examine how the price effect will influence gun purchases and what the revenue impacts to firearms dealers would be. As an example, this could take the form of assuming the same price effect as that for handguns as an upper bound and no impact as a lower bound in order to give a range of likely outcomes.”

Department of Justice Response to Comment 1.

The Department of Justice (Department) agrees with this comment, and has revised the SRIA to include an analysis of how the price effect of the proposed DROS fee will influence long gun purchases, and the potential impacts of this loss of sales. The Department lacks data sufficient to measure the degree to which firearm sales are related to price, rather than other independent variables such as statewide and national elections, anticipated firearms legislation and regulation, advances in firearms technology, or broader social trends. As stated in the SRIA, the Department has reason to doubt that the one economic model on the subject (Bice and Hemley 2002), specifically related to handguns, adequately describes the current price elasticity of demand for handguns, let alone long guns. The Department finds more persuasive the 2021 RAND Corporation report that found “research has faced insufficient variation to empirically estimate the price responsiveness of participants in gun markets” (Smart 2021).

Still, the Department agrees that it is likely that the price elasticity of demand would have an effect on long gun sales. In the absence of data on which to base a more sensitive analysis, the Department assumes, as an upper bound, that an increase in the price of a long gun would lower the quantity demanded by the same proportion as Bice and Hemley observed for handguns. The Department has revised the SRIA to include this estimate as an upper bound, and presents no impact as a lower bound, in order to give a range of likely outcomes.

The potential loss of handgun and long guns sales by firearms dealers would likely have additional indirect and induced impacts on the broader economy, and the Department has updated its estimate of indirect and induced impacts; the potential elimination of jobs within the state; the potential decrease in investment in the state; and the potential state and local fiscal impact due to lost tax revenue from handgun and long gun sales. The Department has revised the SRIA to reflect these additional economic and fiscal impacts.

Department of Finance Comment 2.

“Second, the SRIA must disclose all fiscal costs of the regulation through 12 months following full implementation. This means the SRIA should break down each of the program costs to the Department, such as salaries and benefits, and operating expenses and equipment. Further, these should be presented for the calendar year 2022 so that the costs and benefits of the regulation are consistently and comparably displayed.”

Department of Justice Response to Comment 2.

The Department of Justice (Department) agrees with this comment, and has revised the SRIA to provide more detail regarding program costs, and has presented this information for the calendar year 2022.

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Thank you again for your comments. If you have any questions, please do not hesitate to contact me at (916) 210-2364, or by email at Jacqueline.Dosch@doj.ca.gov.

Sincerely,



JACQUELINE A. DOSCH
Staff Services Manager I

For ROB BONTA
Attorney General

Enclosure