



Kelan Lowney
California Department of Justice
1300 I Street
Sacramento, CA 95814

June 24, 2021

Dear Mr. Lowney:

Thank you for submitting the standardized regulatory impact assessment (SRIA) and summary (Form DF-131) for the New Dealer Record of Sale (DROS) fee regulations, as required in California Code of Regulations, Title 1, Section 200(a)(1) for major regulations. Proposed text of the regulations was not submitted; hence, comments are based solely on the SRIA and other publicly available information.

This regulation imposes a new DROS fee of \$31.19 per transaction on the purchasers of firearms in California that replaces the existing \$19 fee which was reduced to \$1 by AB 1669, effective starting January 1, 2022. The SRIA estimates there are around 870,000 firearms sold per year across 750,000 transactions, with around 400,000 of the firearms sold being handguns and the remainder being long-guns. In calendar year 2022, this is estimated to result in a direct economic cost to purchasers of firearms of \$23 million in DROS fees. The \$31.19 DROS fee represents an increase of between 2 percent and 16 percent on the cost of a handgun, which can range in price from around \$200 to \$1,500. For this reason, there is a subsequent expected loss of revenue to firearm dealers of \$31 million as consumers are expected to purchase fewer handguns. The SRIA does not extend the analysis of revenue loss to the market for long-guns, stating that it lacks sufficient evidence that raising prices will cause consumers to purchase fewer long-guns. The regulation will provide benefits of \$23 million in revenue to the Department of Justice in order to fund its DROS program costs which are estimated to cost \$24 million in the fiscal year 2021-22, although the detail of these costs is not provided. The drop in handgun sales will also cause a corresponding drop in sales tax collected by state and local governments totaling \$2.6 million.

Finance generally concurs with the methodology used with the following two exceptions. 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.

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.

These comments are intended to provide sufficient guidance outlining revisions to the SRIA. The SRIA, a summary of Finance's comments, and any responses must be included in the rulemaking file that is available for public comment. Finance understands that the proposed regulations may change during the rulemaking process. If any significant changes to the proposed regulations result in economic impacts not discussed in the SRIA, please note that the revised economic impacts must be reflected on the Standard Form 399 for the rulemaking file submittal to the Office of Administrative Law. Please let us know if you have any questions regarding our comments.

Sincerely,



Somjita Mitra
Chief Economist

cc: Ms. Dee Dee Myers, Director, Governor's Office of Business and Economic Development
Mr. Kenneth Pogue, Director, Office of Administrative Law
Mr. Matthew Rodriguez, Chief Deputy Attorney General, California Department of Justice