CANNABIS REGULATIONS: BEST PRACTICES FOR YOUR CITY

Mayors and Council Members Executive Forum
Friday, June 21, 2019
9:00 AM to 3:00 PM
Newport Beach, California
9:00 a.m. Welcome / Introductions, Agenda Review
9:15 a.m. Building the Foundation: Overview & History of Cannabis in California
9:30 a.m. Ordinance Creation
10:45 a.m. Break
11:00 a.m. Taxation and Economic Development
12:00 p.m. Networking Lunch
12:30 p.m. Land Use
1:45 p.m. Tactics for Good Neighbors
2:45 p.m. Closing & Adjournment
Cody Bass, Councilmember, South Lake Tahoe
Matthew Bronson, City Manager, Grover Beach
Charles Harvey, Legislative Representative, League of Cities
John Leonard, Community and Legislative Affairs Manager, West Hollywood
Jennifer Mizrahi, City Attorney, Desert Hot Springs, Quintanilla and Associates
Jackie Rocco, Business Development Manager, West Hollywood
Lauren Sugayan, Community and Marketing Manager, Union City
Aly Zimmermann, Assistant City Manager, Vista
Building the Foundation: An Overview and History of Cannabis in California

Charles Harvey, Legislative Representative
Proposition 215: The Compassionate Use Act of 1996

The Medical Marijuana Program, est. 2003
Medical Cannabis Regulation and Safety Act of 2015

• AB 266 (Bonta, Cooley, Jones-Sawyer, Lackey)

• AB 243 (Wood)

• SB 643 (McGuire)
Proposition 64: The Adult Use of Marijuana Act

Prop 64: Makes marijuana legal in California for adults 21 and over

Senate Bill 94: The Merging of Regulatory Schemes
Legalization alone was not enough for industry advocates.

What is the impact on cities?
• AB 1530 (Cooley) – re-establish local regulatory authority of cannabis by clarifying provisions in Prop 64 → (Died in Asm. Policy Committee)

• AB 286 (Bonta) – decreases cannabis state excise tax from 15% to 11% and suspends cultivation tax until June 2022. (Held in Asm. Approps.)

• AB 1288 (Cooley) – adds date of sale & method of sale to track and trace system (Senate Policy Committee)

• AB 1356 (Ting) – mandates minimum number of licenses retail licenses (Asm. Floor Inactive File)

• AB 1417 (Rubio) – imposes civil penalties on advertisers of unlicensed cannabis businesses (Senate Policy Committee)
Why are we hosting today’s forum?

• *Neither Pro nor Anti cannabis*

• *While many cities currently ban, several of these are considering authorization*

• *Growing desire amongst authorizing cities to exchange ideas and methods of implementation for the development of best practices*

• *Want to serve as a resource for ALL cities in the space of cannabis*
Ordinance Creation

Moderator: Aly Zimmermann, Assistant City Manager, Vista

Panelists: Cody Bass, Councilmember, South Lake Tahoe
Matthew Bronson, City Manager, Grover Beach
Jennifer Mizrahi, City Attorney, Desert Hot Springs/Quintanilla and Associates
City of Grover Beach

Cannabis Ordinance Creation

June 21, 2019
GROVER BEACH

- Central Coast beachfront
- 14,000 people in 2+ sq.mi.
- Residential community
- Laid-back coastal vibe
- “Independent thinkers”
Excerpt from 2017 City Council Goals

5. COMMUNITY DEVELOPMENT AND HOUSING

**Goal**: Develop and implement plans consistent with the General Plan and the community’s vision for the future of the City to improve the quality of life.

- Consider zoning and taxing options for Medical Marijuana businesses within the City
- Enhance Code Enforcement program
- Update Parking Standards
TO PROCESS...
February 6, 2017 City Council Meeting
Grover 'on track' to meet cannabis tax revenue projections

BY CHRIS MCGUINNESS

Cash from the city of Grover Beach's commercial cannabis businesses is just beginning to roll in, and city officials appear to be satisfied with the initial returns on the city's newest industry.

Grover Beach is a small bedroom community on California's Central Coast, located along the iconic Pacific Coast Highway 1 and U.S. Highway 101, halfway between San Francisco and Los Angeles. The seaside city, along with the neighboring cities of Pismo Beach and Arroyo Grande and the islands of San Luis Obispo County, is a popular tourist destination.

The City of Grover Beach's initial efforts to regulate commercial cannabis activities date back to late 2015, after the state passed a package of bills outlining new medical cannabis regulations. California local governments were under the direction from the state to pass land use regulations that regulated or prohibited commercial medicinal cannabis activities. If local governments did not do so, the state would become the sole licensing authority in that municipality. This ultimatum caused many local governments, including Grover Beach, to pass indefinite or permanent moratoriums on commercial medicinal cannabis activities by the state's March 1, 2016 deadline.

While the moratorium was in effect, the Grover Beach City Council directed City Manager Matthew...
OVERALL GOALS

• Establish commercial cannabis industry in safe and responsible way
• Create economic opportunity and generate tax revenues
• Locate businesses in appropriate land use zones
• Develop reasonable regulations to protect community and enable success
ORDINANCE TIMELINE

• July 2016 – Direction for cannabis tax measure

• Nov 2016 – Cannabis Tax measure passed

• Jan 2017 – Began Council dialogue on cannabis ordinance
ORDINANCE TIMELINE

• *Feb/March 2017* – Council deliberation on ordinances
• *May 2017* – Land use and regulatory ordinances adopted
• *June 2017* – Dispensary pre-application process initiated
• *Sept 2017* – Dispensary pre-application eligibility ranking list established by Council
Land Use (Development Code)

• Allowed up to two dispensary/retailer permits
• Physical retail storefront required
• No limits on permits for other types e.g. manufacturing, cultivation, distribution, etc.
• Only allowed in industrial zones
• Allowed by Use Permit and Council serving as permitting body
KEY ORDNANCE PROVISIONS

Regulatory

• Commercial Cannabis Permit requirement
• Security measures and background checks
• Odor control and recycled water plans
• Non-volatile manufacturing only
• Record-keeping and audit requirements
• Goal to protect health and safety
PRE-APPLICATION REVIEW CRITERIA

- Proposed Dispensary Site (10 Points)
- Business Plan (25 Points)
- Qualifications and Experience of Principals (25 Points)
- Neighborhood Compatibility Plan (15 Points)
- Operations and Security Plan (15 Points)
- Local Enterprise (10 Points)
DISPENSARY PRE-APPLICATION PROCESS

- **Phase 1**: Preliminary Determination of Eligibility
- **Phase 2**: Staff Selection Committee Ranking Process
- **Phase 3**: Council Approval of Ranking List
- **Phase 4**: Top Applicants Allowed to Submit Applications for Formal Review
EVER-CHANGING ORDINANCES

- State regulatory changes
- Local interests
  - Increased number of retailers
  - Allowing adult use
  - Allowing volatile manufacturing
  - Streamlined permitting process
  - Longer operating hours
EXAMPLES OF CANNABIS INDUSTRY
ADVICE AND LESSONS LEARNED

- Recognize inherent complexities with legal industry coming out of the shadows
- Diligence and deliberation necessary
- Linkage between Council and staff key
- Team approach in implementation
- Focus on compliance vs. enforcement
- Takes time and focus to regulate industry
- Decide upfront if goal is economic or mitigation
ORDINANCE CREATION

Questions and Comments

Grover Beach
A great place to spread your wings
Taxation and Economic Development

Moderator: Jennifer Mizrahi, City Attorney, Desert Hot Springs/Quintanilla and Associates

Panelists: Matthew Bronson, City Manager, Grover Beach
           Jackie Rocco, Business Development Manager, West Hollywood
FUNDAMENTAL QUESTION…

ECONOMIC OPPORTUNITY
OR RISK MITIGATION?
ECONOMIC GOALS

- Greater economic activity
- Jobs
- Tax revenue
- Redevelopment
TAX STRUCTURE

- Measure L–16 approved by 70% of voters
  - 5% gross receipts tax medical cannabis
  - 10% gross receipts tax adult use cannabis
  - $25/sf for cultivation on first 5,000 sf
  - $10/sf for cultivation beyond that
- Unknown revenue impact at the time
- Represent maximum tax rates
TAX STRUCTURE

• Tax rates reduced in May 2018 prior to opening of initial businesses
  • One rate for medical use and adult use
  • 5% gross receipts tax for cannabis retailers
  • 3% gross receipts tax for manufacturing and other businesses
  • $5/sf for cultivation on floor area
### EXAMPLES OF RATES IN OTHER JURISDICTIONS

<table>
<thead>
<tr>
<th>Jurisdiction</th>
<th>Retail</th>
<th>Manufacturing</th>
<th>Cultivation</th>
<th>Other/Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adelanto</td>
<td>5%</td>
<td>5%</td>
<td>5%</td>
<td>Cultivators can pay $5/sf of facility as alternative</td>
</tr>
<tr>
<td>Berkeley</td>
<td>5%</td>
<td>5%</td>
<td>5%</td>
<td>Recently reduced from 10%</td>
</tr>
<tr>
<td>Carson</td>
<td>18%</td>
<td>18%</td>
<td>$25/sf</td>
<td>Tax increased annually by CPI</td>
</tr>
<tr>
<td>Cathedral City</td>
<td>~</td>
<td>~</td>
<td>$25/sf</td>
<td>$1 per gram/unit of cannabis concentrate or product</td>
</tr>
<tr>
<td>Coachella</td>
<td>6%</td>
<td>6%</td>
<td>$15/sf</td>
<td>Only wholesale cannabis businesses allowed</td>
</tr>
<tr>
<td>Coalinga</td>
<td>10%</td>
<td>~</td>
<td>$25/sf</td>
<td>$10/sf after first 3,000 sf of cultivation space</td>
</tr>
<tr>
<td>Dixon</td>
<td>15%</td>
<td>15%</td>
<td>15%</td>
<td></td>
</tr>
<tr>
<td>Fillmore</td>
<td>15%</td>
<td>15%</td>
<td>$30/sf</td>
<td>$15/sf after first 3,000 sf of cultivation space</td>
</tr>
<tr>
<td>Gonzales</td>
<td>~</td>
<td>5%</td>
<td>$15/sf</td>
<td>Rates can be raised in 3 years to 15% and $25/sf</td>
</tr>
<tr>
<td>Greenfield</td>
<td>5%</td>
<td>5%</td>
<td>$15/sf</td>
<td>Rates increase after 2020; nursery rate $2/sf</td>
</tr>
<tr>
<td>Grover Beach (current)</td>
<td>10%</td>
<td>10%</td>
<td>$25/sf</td>
<td>$10/sf after first 5,000 sf of cultivation space</td>
</tr>
<tr>
<td>Hayward</td>
<td>15%</td>
<td>15%</td>
<td>15%</td>
<td></td>
</tr>
<tr>
<td>King City</td>
<td>~</td>
<td>$30,000</td>
<td>$25/sf</td>
<td>$10/sf after first 5,000 sf of cultivation space</td>
</tr>
<tr>
<td>Long Beach</td>
<td>10-12%</td>
<td>6-8%</td>
<td>$12-15/sf</td>
<td>Marijuana business license tax also imposed</td>
</tr>
<tr>
<td>Oakland</td>
<td>10%</td>
<td>10%</td>
<td>10%</td>
<td>Considering ballot measure to lower rates</td>
</tr>
<tr>
<td>Perris</td>
<td>10%</td>
<td>~</td>
<td>$25/sf</td>
<td></td>
</tr>
<tr>
<td>Pittsburgh</td>
<td>10%</td>
<td>10%</td>
<td>10%</td>
<td></td>
</tr>
<tr>
<td>Point Arena</td>
<td>10%</td>
<td>10%</td>
<td>10%</td>
<td></td>
</tr>
<tr>
<td>Richmond</td>
<td>5%</td>
<td>5%</td>
<td>5%</td>
<td></td>
</tr>
<tr>
<td>Sacramento</td>
<td>4%</td>
<td>4%</td>
<td>4%</td>
<td></td>
</tr>
<tr>
<td>SLO County (if apprv)</td>
<td>4%</td>
<td>4%</td>
<td>4%</td>
<td>Raised 2% every year to 10% maximum</td>
</tr>
<tr>
<td>Salinas</td>
<td>5%</td>
<td>5%</td>
<td>$15/sf</td>
<td>Rates increase in 2019 to 10% and $25/sf</td>
</tr>
<tr>
<td>San Diego</td>
<td>5-15%</td>
<td>5-15%</td>
<td>5-15%</td>
<td></td>
</tr>
<tr>
<td>San Jacinto</td>
<td>15%</td>
<td>15%</td>
<td>$50/sf</td>
<td></td>
</tr>
<tr>
<td>San Leandro</td>
<td>10%</td>
<td>10%</td>
<td>10%</td>
<td></td>
</tr>
<tr>
<td>Santa Barbara (city)</td>
<td>20%</td>
<td>20%</td>
<td>20%</td>
<td></td>
</tr>
<tr>
<td>Santa Barbara Co (if apprv)</td>
<td>6%</td>
<td>3%</td>
<td>4%</td>
<td>Also 1% on nurseries and distributors</td>
</tr>
<tr>
<td>Santa Cruz</td>
<td>7%</td>
<td>7%</td>
<td>7%</td>
<td>Maximum rate of 10%</td>
</tr>
<tr>
<td>Watsonville</td>
<td>10%</td>
<td>2.5%</td>
<td>$20/sf</td>
<td>Manufacturing rate selected within 2-5% range</td>
</tr>
</tbody>
</table>
# INITIAL REVENUE ESTIMATES WITH ADULT USE

## 2018-19

<table>
<thead>
<tr>
<th>#</th>
<th>Type</th>
<th>Gross Receipts</th>
<th>Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>4</td>
<td>Retailer</td>
<td>$1,250,000</td>
<td>$250,000</td>
</tr>
<tr>
<td>6</td>
<td>Manufacturing</td>
<td>$2,500,000</td>
<td>$450,000</td>
</tr>
<tr>
<td></td>
<td>TOTAL</td>
<td></td>
<td>$700,000</td>
</tr>
</tbody>
</table>

## 2021-22

<table>
<thead>
<tr>
<th>#</th>
<th>Type</th>
<th>Gross Receipts</th>
<th>Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>4</td>
<td>Retailer</td>
<td>$2,000,000</td>
<td>$400,000</td>
</tr>
<tr>
<td>10</td>
<td>Manufacturing</td>
<td>$3,250,000</td>
<td>$975,000</td>
</tr>
<tr>
<td>2</td>
<td>Cultivation</td>
<td>$2,500,000 (10k sf)</td>
<td>$100,000</td>
</tr>
<tr>
<td></td>
<td>TOTAL</td>
<td></td>
<td>$1,475,000</td>
</tr>
</tbody>
</table>
CANNABIS TAX PROJECTIONS

• FY 2018–19
  • Original: $700,000
  • Mid-Year Revised: $750,000
  • Final Revised: $850,000

• FY 2019–20
  • Original: $1.2 million
  • Revised: $1.5 million
OTHER REVENUE BENEFITS

- Property Tax
- Property Transfer Tax
- Sales Tax (1.5% local)
## FY 2019-20 GENERAL FUND REVENUES

<table>
<thead>
<tr>
<th>General Fund Revenue</th>
<th>Amount</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property Tax</td>
<td>$4.74 M</td>
<td>38%</td>
</tr>
<tr>
<td>Sales Tax</td>
<td>2.52 M</td>
<td>20%</td>
</tr>
<tr>
<td>Cannabis Tax</td>
<td>1.5 M</td>
<td>12%</td>
</tr>
<tr>
<td>Other Taxes</td>
<td>.83 M</td>
<td>7%</td>
</tr>
<tr>
<td>Charges for Current Services</td>
<td>.82 M</td>
<td>7%</td>
</tr>
<tr>
<td>Transfers In</td>
<td>.71 M</td>
<td>6%</td>
</tr>
<tr>
<td>Franchise Fees</td>
<td>.57 M</td>
<td>5%</td>
</tr>
<tr>
<td>Licenses &amp; Permits</td>
<td>.44 M</td>
<td>4%</td>
</tr>
<tr>
<td>Use of Money and Property</td>
<td>.27 M</td>
<td>2%</td>
</tr>
<tr>
<td>Other</td>
<td>.12 M</td>
<td>1%</td>
</tr>
<tr>
<td>Use of Reserves</td>
<td>-.05 M</td>
<td>0%</td>
</tr>
<tr>
<td><strong>TOTAL REVENUES</strong></td>
<td>$12.47 M</td>
<td>100%</td>
</tr>
</tbody>
</table>
FINANCIAL FORECAST
REGULATORY COSTS AND FEES

- $377,000 costs
  - 1.8 FTEs
  - Training
  - Auditing
  - Equipment
- Full cost recovery
ADVICE AND LESSONS LEARNED

• Determine upfront if goal is economic or mitigation
• Consider broader scope of economic benefits
• Consider how cannabis fits into overall economic vision
• Encourage normalization with business groups
• Be cautious with revenue estimates
• Carefully determine how to allocate revenues
TAXATION AND ECONOMIC DEVELOPMENT

Questions and Comments
Taxes
Economic Development
and Cannabis
City of West Hollywood

A destination city known for its tourism entertainment, restaurants and night life

- 1.9 Square Miles
- 23 Hotels
- More than 200 Restaurants, Bars & Nightclubs
16 Consumption Lounges Approved

– Will allow:
  • Smoking, vaping, ingestion
  • Ingestion only

– Will create an environment similar to a bar including entertainment where customers can enjoy cannabis in
FISCAL IMPACTS

- Cannabis Screening Applications = $3 Million
- Sales Tax Revenue = $200,000 to $300,000
- New City Specific Cannabis Tax – 7.5% approved by voters on March 5, 2019
- Business License Application Revenue = $400,000 to $500,000
QUESTIONS?

Jackie Rocco
Business Development Manager
City of West Hollywood
jrocco@weho.org
323-848-6547 or 323-848-6361
Land Use

Moderator: Aly Zimmermann, Assistant City Manager, Vista

Panelists: Jennifer Mizrahi, City Attorney, Desert Hot Springs/Quintanilla and Associates

John Leonard, Community and Legislative Affairs Manager, West Hollywood
Tactics for Good Neighbors

Moderator: Aly Zimmermann, Assistant City Manager, Vista

Panelists: Cody Bass, Councilmember, South Lake Tahoe

Brad Rowe, Cannabis Compliance Practice Leader, MuniServices/Avenu
Good Neighbor Relations Presentation at League of California Cities 21 June 2019
Brad Rowe
Cannabis Compliance Practice Leader for MuniServices/Avenu Insights
Cannabis Support Services
Brad.Rowe@avenuinsights.com
+1.213.500.8170
UCLA Lecturer, Drug Policy
Substituting for
Lauren Sugaynan
Communications and Marketing Manager,
Union City
California
Establish Good Relationships with Professional Business Groups

Purpose is to build opportunities for economic and community partnerships

- Examples:
  - Employee referral programs for social equity and general applicants
  - Local hire practices – guards/PR help with neighbor complaints
  - Charity and philanthropic efforts, community benefit
  - Support business to business ecosystem

- Policy tools:
  - License with % local hire and sourcing requirements (Oakland 50%)
  - Social equity hiring, training and support
  - Low-cost/no-cost loan programs
  - Tax relief
Good Neighbor Relations

Carry Out Routine Community Engagement

Examples:

- Host community forums, early and often
- Hold site tours of current locations in other communities
- Invite community in for workshops

Policy tools:

- Encourage medical access
  - Berkeley Patients Group good neighbor policies
- Partner and share data with local research universities
- Train medical professionals on proven benefits from medical cannabis
  - Chronic pain
  - Chemotherapy-induced nausea
  - Multiple-sclerosis spasticity
Commitment to Local Philanthropic Efforts

Examples:

• Volunteer hours
• Volunteer funding

Policy tools:

• Merit-based criteria during licensing
• Tax credit for commitments to community service
• Align the commercial cannabis community benefit plan with city priorities
Address Racial Inequality in Enforcement

Examples:
  • Equal use rates between blacks and whites
  • Black males arrested

Policy tools:
  • Merit-based criteria during licensing
  • Tax credit for commitments to community service
  • Align the commercial cannabis community benefit plan with city priorities
Address Racial Inequality in Enforcement

Examples:

- Equal use rates between blacks and whites
- Black males arrested

Policy tools:

- Avoid over-policing for minor cannabis offenses
- Proactively expunge existing non-violent cannabis offenses
- Provide tools to overcome restrictions of access to housing, benefits, scholarships, loans and employment
Address Racial Inequality in Enforcement

**Figure 10**

Arrest Rates for Marijuana Possession by Race (2001-2010)

- **Source:** FBI/Uniform Crime Reporting Program Data and U.S. Census Data
Address Racial Inequality in Enforcement

Chart 20: Marijuana Arrest Rates per 100,000 in Washington, D.C. by Charge and Race (2010 – 2016)

Source: Census Quick Facts, Metropolitan Police
Create a Culture of Communication

Examples:

• Create a direct line of communication between responsible city departments and local licensees
• Trash cleaning, nuisance handled in friendly manner
• Utilize pre-operations training session with inspectors from fire, police, administration, power, zoning and environment

Policy tools:

• Set your licensees up for success
• Create a risk-assessment tool to measure compliance
• Targeting resources: save inspections and enforcement resources for the most non-compliant
• Shift from criminal to administrative framework with your licensees
Good Neighbor Relations

Transition Unlicensed to Licensed

Protect your taxpaying businesses

Examples:

- Affidavit to compliance
- Utility shutdown
- Padlock ordinance

Policy tools:

- Provide information to community about compliant businesses they should support
- Develop information campaigns about the benefits of purchasing tested, licit cannabis products
Cannabis is not harmless

Examples:

- Cannabis use disorder
- Development of the adolescent brain
- Reduced cognitive function
- Substantial evidence of association between heavy cannabis use and development of schizophrenia or other psychoses

Policy tools:

- User-determined quotas
- Encourage late-initiation
- Encourage media promote moderate use
- Limit hours of operation
- Parent and student education and intervention
Engage Surrounding Businesses and Community

Examples:

- Address historical stigma of industry
- Neighbors harbor serious concerns about the safety of dispensaries
  - From 2016, Bridget Freisthler, PhD: density of marijuana dispensaries in California was unrelated to property and violent crimes in local areas
- Compliant businesses use security cameras, lighting and identification tools to monitor activity

Policy tools:

- Address nuisance complaints early
- Normalization will progressively change how we view cannabis
  - Cultivation = garlic or onion farming
  - Distribution/delivery = Amazon
  - Retail = liquor store
  - Consumption lounge = bar
Engage Surrounding Businesses and Community

Policy tools:

• Impact assessment should include traffic, parking, environment
• Don’t leave residents holding the bill:
  • Fiscal impact: build a cost-recovery model
• Consistency of the city’s general plan
• Development potential
• Land use designation
• Agriculture and tourism
• Prepare for predatory real estate practices in non-buffer-zoned areas
Thank You
Brad Rowe
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Cannabis Support Services
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UCLA Lecturer, Drug Policy
Questions?