

City of Arts & Innovation

City Council Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL **DATE: JULY 25, 2017**

FROM: COMMUNITY & ECONOMIC DEVELOPMENT **WARDS: ALL**
DEPARTMENT

SUBJECT: WORKSHOP ON PROPOSITION 64

ISSUE:

Receive an update on the State of California's implementation of Cannabis Regulation Framework as it relates to AB 243, AB 266, SB 643 ("Medical Cannabis Regulations and Safety Act" or "MCRSA"), Proposition 64 ("Adult Use of Marijuana Act" or "AUMA") and SB 94 ("Medicinal and Adult-Use Cannabis Regulation and Safety Act" or "MAUCRSA") and the potential impacts of these laws on the City of Riverside.

RECOMMENDATIONS:

That City Council:

1. Receive the update and participate in the workshop on the State of California's implementation of Cannabis Regulation Framework;
2. Provide direction regarding any proposed policy, plan, and/or regulations of medical and recreation cannabis in the City; and
3. Direct staff to establish a moratorium on all commercial cannabis activity until a fully developed Cannabis Regulation Program can be fully developed for City Council approval.

LEGISLATIVE HISTORY:

On November 8, 2016, California voters approved Proposition ("Prop") 64 (AUMA). AUMA approved recreational use of marijuana, and allows commercial marijuana activities associated with the cultivation, manufacturing, transportation, distribution, testing and dispensing of marijuana for recreational and personal use in the State of California. This is in addition to previous legislation (MCRSA) passed by the State legislature and signed into law by the Governor in September 2015. However, on June 27, 2017 Governor Jerry Brown, signed SB 94, creating the (MAUCRSA) which effectively repealed MCRSA and incorporated certain provisions of the MCRSA in the licensing provisions of AUMA thus integrating the rules for both medicinal cannabis (MCRSA) and adult use of marijuana (AUMA).

BACKGROUND:

On March 7, 2017, City Council held a workshop on the potential impacts of Prop 64 on the City of Riverside. At this meeting, additional questions were asked to be addressed in another workshop.

DISCUSSION:

David MacPherson from HdL Companies will lead the presentation and discussion on proposed policy, plan, and/or regulation of recreation and medical marijuana in the City as a result of Prop 64 and SB 94.

The Riverside County Office of the District Attorney is expected to share information regarding the training their office is providing to Riverside County communities on the subject.

SB 94 Key Changes to the State's Cannabis Regulations:

1. The governing bureau will now be the Bureau of Cannabis Control (aka "the Bureau").
2. Cities retain full land use authority as to cannabis businesses; cities may prohibit such businesses entirely, allow only some, or allow them with locally developed regulations that fit local needs. SB 94 also establishes that local jurisdictions retain the authority to regulate cannabis businesses and to take enforcement action concerning Fire and Building Codes, conduct inspections, and implement audits.
3. Retains the requirement that a qualified patient possess a State Medical Marijuana I.D. Card to be exempt from paying sales and use tax on cannabis purchases.
4. The State must notify a local jurisdiction when it receives an application for commercial cannabis activity in that jurisdiction. The City then has 60 business days to notify the State whether the applicant is in compliance with local regulations.
5. Cities will be required to submit copies of local ordinances and regulations on cannabis uses to the State. In addition, cities must provide the Bureau with a contact name for the verification of the regulatory permits.
6. Through July 1, 2019, SB 94 exempts from the California Environmental Quality Act ("CEQA") the adoption of an ordinance or regulation by a local jurisdiction if the ordinance or regulation requires discretionary review and approval of local permits or licenses for commercial cannabis activity.
7. The types of licenses available for commercial adult-use cannabis activity and commercial medicinal cannabis activity will be the same. MAUCRSA establishes 20 license types, including 14 cultivation licenses, two manufacturing licenses, one testing license, one retailer license, one distributor license, and one microbusiness license. With the exception of the testing license, the state will designate each license with an "M" or an "A" to indicate whether it is a medical or an adult-use license. The licenses available under both the MCRSA and AUMA will continue to be available for both kinds of activity, and for specialty cottage cultivation licenses and microbusiness licenses, and, commencing on January 1, 2023, licenses for large outdoor, indoor, and mixed-light cultivation will also be available for both medicinal and adult-use cannabis activity.

8. Producing dispensary and transporter licenses will not be available.
9. Those with a retail cannabis license or delivery operations will now be allowed to operate from a physical location that is closed to the public. They no longer shall be required to be affiliated with a dispensary.
10. Quality assurance, inspection, and testing requirements of cannabis and cannabis products prior to retail sale will change. Distributors will be required to store cannabis batches on their premises during testing, testing lab employees will be required to obtain samples for testing and transport those samples to testing labs, and distributors will be required to conduct a quality assurance review to ensure compliance with labeling and packing requirements, among other things.
11. Though the MCRSA limited the combinations of medicinal cannabis licenses a person may hold until January 1, 2026, the MAUCRSA will not apply these limits (other than that testing laboratory licensees are prohibited from obtaining licenses to engage in any other commercial cannabis activity).
12. The residency requirement in AUMA is now repealed. Those who reside in other states or countries can now be allowed to own a cannabis business in California.
13. Additional advertising requirements, including regulation of online advertising and the creation of a universal symbol for edible cannabis products will be implemented.
14. The cannabis excise tax will be measured by the average market price (as defined) of the retail sale, instead of by the gross receipts of the retail sale.
15. Applicants for cultivation licenses will need to identify the source of water supply.
16. The Bureau will no longer have the authority to regulate and control industrial hemp.
17. The State may issue temporary event licenses allowing people 21 and older to consume cannabis and cannabis products at a county fair or district agricultural association event. These event licenses may only be issued if the local jurisdiction allows the events.

SUPPLEMENTAL QUESTIONS FROM CITY COUNCIL:

Issues Related to the State:

1. Early indications were that the State was behind their timetable to establish the licensing scheme. What is their current timeline?

Response: On April 28, 2017, the three State agencies (Consumer Affairs, Food & Agriculture and Health Services) released their proposed regulations for the 45-day response period. However, prior to the conclusion of this 45-day deadline, SB 94 was signed and the agencies are currently modifying the new regulations to comply with the new legislation. It is anticipated that the revised regulations will be released in early September. Furthermore, in consultation with the Bureau, they are anticipating having the

regulation registration up and running which would allow the Cannabis Industry to begin creating an application file even if they cannot submit it before January 2, 2018.

2. If the City decides not to allow any marijuana-related businesses, will the State supersede the City's determination? If so will they also take the revenue generated?

Response: SB 94 prohibits the State from issuing permit in the City as long as the City advises them that they are not permitted by providing the Bureau the City ordinance which clearly prohibits the commercial cannabis activity.

3. If the City Council decides to not permit retail sales or commercial cultivation prior to the State developing its licensing structure, can the City Council wait to make a determination at a later date?

Response: Yes. Cities retain full land use authority as to cannabis businesses; cities may prohibit such businesses entirely, allow only some, or allow them with locally developed regulations that fit local needs. However, in an abundance of caution staff recommends that if City Council wishes to continue developing a regulatory policy other than a ban then it should establish a moratorium for both medical and recreational cannabis businesses until a fully developed Cannabis Regulation Program can be implemented. In doing so, it will eliminate any loopholes of anyone applying for a State License without the City's authorization.

Current Cost to the City and Enforcement Issues:

1. What is the annual amount the City spends closing down the illegal shops, cost of law enforcement resources, the City Attorney's Office legal action, Code Enforcement resources, and court costs mitigation?

Response: The annual amount varies from year to year. Last year, the City addressed 24 illegal shops which cost approximately \$257,371.00. This includes Police, Fire, City Attorney's Office and Code Enforcement.

2. What is the status of field testing equipment to determine if a driver is under the influence of marijuana?

Response: The challenge is how to test whether a driver who is pulled over for driving erratically recently consumed marijuana. There is currently no Tetrahydrocannabinol (THC) threshold for impairment established in California as well as no standard test for impairment (e.g. blood, saliva, breath). To address this problem, Prop 64 allocates some of the tax revenues that will be raised from recreational marijuana sales to the Department of California Highway Patrol to create protocols for determining whether a driver is impaired by use of marijuana. The state is currently exploring ways to test driver impairment, including the use of [marijuana breathalyzers](#) that have already been road-tested on California highways.

3. Has the U.S Department of Justice changed how it will address cities that legalize the use of medical and recreational marijuana?

Response: US Attorney General Jeff Sessions asked Congressional leaders not to renew the current federal law that presents the Department of Justice from spending money to interfere with state medical marijuana laws since it would restrict the discretion of the

Department to combat the transitional drug organizations and dangerous drug traffickers who threaten American lives. Furthermore, when President Trump signed the Fiscal Year 2017 omnibus appropriations bill into law, he issued a signing statement that essentially reserved the right to ignore the medical marijuana protections. However, last year the U.S. Court of Appeal for the Ninth Circuit ruled, over the Justice Department's objection, that the measure does in fact prevent federal prosecutors from pursuing cases against state-legal medical cannabis patients, growers and dispensaries. In addition, the ruling only applies to the nine states (Alaska, Arizona, California, Hawaii, Idaho, Montana, Nevada, Oregon and Washington) and two territories (Guam and Northern Mariana Islands) that fall under the Ninth Circuit's jurisdiction. In the meantime, cities who continue to comply with the Cole Memo have avoided federal interference with their medical marijuana laws. As it pertains to recreational marijuana states that have adopted recreational establishments such as Colorado have created legislation that would require recreational businesses to automatically convert to medical permits and comply with medical requirements should the federal government start enforcing recreational commercial activity.

4. What are the potential ramifications should the City Council decide not to have an explicit policy in place banning or permitting either retail sales or commercial cultivation operations prior to January 1, 2018, or whenever the State begins issuing licenses?

Response: Cities will be required to submit copies of local ordinances and regulations on cannabis uses to the State. In addition, they must provide the State agency with a contact name for the verification of the regulatory permits. Under SB 94, the State must notify a local jurisdiction when it receives an application for commercial cannabis activity in that jurisdiction. The City then has 60 business days to notify the state whether the applicant is in compliance with local regulations. Furthermore, if the City cannot demonstrate that the applicant violates a local ordinance or regulation the state may be obligated to issue the permit.

Revenue and Banking:

1. If we allowed one retail establishment per ward (7 total), what would we expect for annual revenue?

Response: There are a variety of variables that go into determining a revenue forecast for this question such as market share in the region, types of products that will be allowed to be sold, the tax rate which will be established and if both medical and recreational sales will be permitted. However, in general until a more definitive assumption can be provided our findings have determined that there are currently 22 active retail permits in Riverside County that generate on average \$2.2 million in gross sales. Therefore, if we went off this assumption and established a gross receipt tax of 5% for seven retail locations, the annual business tax would generate an estimated \$770,000 and the local sales tax would generate \$155,400, for a total of \$925,400.

2. How much revenue do indoor cultivation and edible manufacturing facilities generate for other communities?

Response: As described in the retail question there are a variety of variables that go into determining a revenue forecast for this question such as market share in the region, types of products that will be allowed to be sold, the tax rate which will be established and if both medical and recreational sales will be permitted. Up to this point most cities have not generated revenue for cultivation and manufacturers since they have not legally permitted

them in their jurisdiction until MCRSA/AUMA went into law. As such most agencies are currently in the process of developing cultivation/manufacturing facilities which will be subject to local taxes. However, based on the information that we do know the tax rates which have been established by most local agencies on cultivation is taxed on a square footage. The midpoint for most of these tax rates are \$10 per square foot although some go as high as \$25 per square foot. For the purpose of this projection we will utilized a \$10 per square foot calculation. If this was the case and again we allowed one cultivation site for each ward (total of 7) and each of them allowed the maximum cultivation of a Type 3A permit (22,000) which would establish 154,000 square feet of permitted cultivation this would generate \$1,540,000 in business tax. As it pertains to manufacturing, staff data analysis of over 75 business proforma plans observed an average of approximately \$3 million annually per business. Therefore, if the City allowed one manufacturer per ward (total of 7) and taxed manufacturers at the rate of 5% the projected revenue would be \$1,050,000.

3. What is the current status, and tax rate if permitted on recreational marijuana regulation in surrounding jurisdictions?

Response: We have not identified any local agency that have created a separate tax rate for recreation marijuana. In addition, we have only identified four other jurisdictions in the County which currently tax marijuana as follows:

Coachella- The cannabis tax is \$15.00/ sq. ft. for the first 20,000 sq. ft., and \$7.50 /sq. ft. for the remainder of the grow canopy area for the facility. Additionally, wholesale gross receipts are taxed annually at 4% for cultivation, and 2% for manufacturing and processing.

Desert Hot Springs- Every dispensary or collective shall pay to the City a monthly tax of 10% of its proceeds from such sales or provision. In addition, every cultivation facility shall pay to the City for the space utilized in connection with the cultivation of marijuana for medical use an annual tax of \$25 per square foot for the first 3,000 square feet, and then \$10 per square foot for the remaining space utilized in connection with the cultivation of marijuana for medical use.

Palm Springs- The marijuana taxed rate is ten (10) cents for each dollar (or portion thereof) of proceeds. Collectives operating without a valid City Council-issued permit will be taxed at the rate of fifteen (15) cents for each dollar (or portion thereof) of proceeds.

Perris- The tax on medical marijuana cultivators shall be \$25 per square foot and 10 percent of revenue for medical marijuana dispensaries.

4. Has there been any resolution to banking operations issues associated with the marijuana industry?

Response: There has been some movement in the development of banks working with the cannabis industry as demonstrated in the chart below. In addition, the State Treasurer has established a Banking Working Group to help come up with some recommendations on implementing some policies to work with the cannabis industry. Furthermore, several armored car services are quietly establishing programs to manage and transport the industry funds to eliminate safety issues in the movement of cash transactions.

Number of Depository Institutions Actively Banking Marijuana Businesses in the United States
(Reported in SARs)



5. We understand that not authorizing retail sales and commercial growth in the City will exclude the City from certain grant funding. Can you explain the nature of the grant funding available to cities associated with Prop 64, specifically the intended uses, expected dollar amounts available statewide and amount the City of may be eligible for?

Response: Prop 64 excise tax revenues will be used to help administer the state program but it shall not exceed 4% of the funds, then it will dedicate \$10 million to universities for research, \$3 million to the California Highway Patrol to develop protocols to determine if a driver is operating a vehicle while impaired, \$10 million for Economic Development and Social Service Programs. Once these funds have been disbursed then of the remaining revenue 60% will go to Youth Education, Prevention, Early Intervention and Treatment, 20% will go to Environmental Restoration and Protection then finally the remaining 20% will go to local governments to assist with law enforcement, fire protection, or other local programs addressing public health and safety associated with the implementation of AUMA. However, the State Board of Community Corrections shall not make any grants to local governments which have banned the cultivation, including personal cultivation, or retail sale of marijuana or marijuana products. As this point, it estimated that the grant money for this program will range from \$10 million and could be as high as \$40 million in fiscal year 2022-2023. During the discussion with the Governor's Office on changes to SB 94 attempts were made to modify this restriction so that local jurisdictions which demonstrated allowing a reasonable amount of commercial cannabis activity in the local agencies would not be precluded from qualifying from grant funds.

On September 14, 2017 at the League of Cities Annual Conference in Sacramento there will be a presentation that will be conducted titled "Local Government Grants under Prop 64". This presentation will discuss how local governments can craft a competitive bid to assist local agencies in enforcement action related to licensed activities under the Act, emergency response related to indoor cultivation and manufacturing activities, as well as marijuana-impaired activities that pose a threat to public safety. Staff will report back to City Council as we receive more additional information on the grant funding from this presentation.

6. If marijuana remains a cash-only business, how does the State, and by extension the cities, intend to accurately track and collect revenue and sales tax due?

Response: SB 94 has established a directive to the Bureau to work with the General Services Department to establish state building locations throughout the state for the payment of taxes and fees. In addition, the State Board of Equalization will be modifying their procedures to do the same. Furthermore, as part of the requirement of the state regulations each permitted business will be required to enter all cannabis products in the state track n trace management inventory system. This system will ensure that all product is properly tracked with a RFID tag or sticker for the movement of all product from the point the plant is eight inches tall. In addition, at the State level and at the local level as well each business will be required to maintain a security surveillance system which must meet stringent standards to ensure there is no diversion or inversion of product into the market place. Finally, City staff will work with the City consultant that utilizes proprietary software to detect the variance of any cannabis product or cannabis cash revenues that may be manipulated or diverted from the Track N Trace system or retail Point of Sale Software to ensure that the cannabis businesses are properly reporting its taxes.

Lessons Learned from Other Jurisdictions:

1. Can you confirm that jurisdictions in Colorado are increasing the sizes of their Police Departments with the revenues generated from marijuana-related businesses?

Response: The City of Denver reported increasing staff to handle the vast number of business applications. Additionally, members of the police department were added to the Excise and Licensing Division which was tasked with the responsibility of handling the regulatory inspections and criminal investigations. Sworn along with non-sworn code enforcement personnel were needed to address the increase of regulatory violations. The City Attorney's office also increased staff to handle the sudden increase in regulatory cases.

Outside of the City/County of Denver staff is not aware of any other city or county agency who increased their police department in direct response to the licensed industry. However, the cities of Boulder, Fort Collins and Breckenridge all re-assigned one full-time sworn officer to handle all matters directly related to the regulated industry and it is our understanding the assignments did not require an increase in overall personnel.

2. We have heard varying reports of how Colorado is doing since they legalized recreational use of marijuana. Can you identify how the income from marijuana-related businesses is impacting local jurisdictions (general fund)?

Response: Other than the City/County of Denver, Colorado agencies are unwilling to report how much money is made and how it is spent. In the most recent report provided by the City/County of Denver, the City sold \$410.4 million worth of marijuana products. At a 3.5% excise tax, along with licensing fees the City reported a total marijuana income of \$14,566,862. Denver spent \$826,000 on enforcement and \$746,000 on education. Because of an unexpected increase in revenue, Denver approved a one- time allocation of 3.2 million which was used to develop the Central Denver Recreational Center.

3. Are jurisdictions seeing an increase in crime related to marijuana dispensaries?

Response: The data for crimes related to marijuana dispensaries have mixed results. Depending who you ask, crime has both increased and decreased since the regulated

industry started. The problem with the numbers starts with poor data collection prior to legalization. Since legalization, the numbers depend on how you ask the question and what you consider a marijuana crime. To put things in perspective, Denver marijuana sales account for approx. 41% of the overall state sales (As stated above equates to \$410.4 million). In a six-month period, the Marijuana Enforcement Division reported 153,000 lbs. of marijuana flower sold in addition to 4.3 million items of edibles. With all this marijuana sold in and around the City and County of Denver, marijuana related crime only accounts for .03% of overall crime. In 2016, Colorado reported having eight violent crimes at the approximately 2,700 licensed marijuana businesses.

4. Is there any data available that identifies the costs other jurisdictions (Colorado, Oregon, Washington; Denver in particular) have incurred to deal with the social issues (increased crime, vagrancy, etc.) associated with marijuana?

Response: The homelessness issue in every major city in the nation has increased so narrowing it down to marijuana as the root cause makes it difficult. Cities such as Los Angeles, San Francisco, San Jose, Oakland and Denver are just a few examples. Although the Mayor of Denver has repeatedly reported that Denver's homeless population is directly associated with marijuana, there is no data directly tying this as the primary factor. However, some of the speculation has been that many transients came to Colorado seeking employment in the cannabis industry but could not pass the background and therefore remained in the region with no means of employment. As it pertains to other social issues there has been some correlation of an increase in hospital visits directly associated to marijuana overdoses and pediatric exposures. Smart Colorado, an organization that was formed in 2013 to be the voice for children at the State and local legislative and policy levels; has issued several reports to indicate this has been the case in Colorado.

5. Is there data available to show the experience of other cities with criminal activity or other undesirable side effects of permitted commercial marijuana growing or selling?

Response: With regards to Colorado agencies dealing with permitted commercial marijuana businesses, the most frequent quality of life complaints are odor complaints from the cultivations, vehicle traffic around the retail locations and public consumption issues. As previously stated, marijuana data collection has been difficult to pin down. One of the unique issues associated with Colorado data is the unregulated black market resulting from the Home Caregiver clause in SB109. Colorado currently allows anyone to grow marijuana for up to 5 different patients. Each patient could have an elevated plant count exceeding 100 plants. The lack of oversight in this segment of the marijuana industry allows for a large amount of black market inventory to be sold both in and out of state.

6. What are the primary cost drivers for cities associated with marijuana legalization (i.e., regulation and enforcement, licensing burden, traffic-related incidents, etc.)?

Response: The cost of licensing greatly depends on the thoroughness and complexity of your criminal and financial backgrounds. The backgrounds tend to be complicated and time consuming. The greatest portion of the upfront cost is associated with the development of a new enforcement program which regulates an industry never experienced. Getting the new enforcement staff familiar with the new and frequently changing marijuana laws will be expensive and time consuming. As the regulatory program matures, the enforcement staff will be able to save time and effort by prioritizing their assignments using proven risk indicators.

7. Prop 64 permits cultivation of marijuana within multi-unit dwellings. Grow lights associated with cultivation present a high safety risk for occupants. Odors associated with growing also present a nuisance to adjacent units. Are there any best practices other cities have implemented to either restrict or ban marijuana cultivation in multi-unit dwellings?

Response: The City may enact and enforce reasonable regulations to regulate personal cultivation. Cities that have experienced personal cultivation challenges in multi-unit dwellings have adopted regulations to mitigate these issues. Some of these include the following:

- A. Require a letter from the property owner authorizing the cultivation of cannabis on the premise;
- B. Marijuana cultivation shall be limited to six (6) plants (including both mature and immature plants) per private residence, regardless of whether the marijuana is cultivated inside the residence or in a fully enclosed and secure structure, notwithstanding the number of individuals living in the or about the private residence;
- C. The cultivation of the six plants must be in one contiguous location on the premises;
- D. Every person who wishes to conduct personal cultivation at their place of residence shall first register with the City in order to do so;
- E. The primary use of the property shall be for a residence. Marijuana cultivation is prohibited as a home occupation;
- F. The residential structure shall remain at all times a residence, with legal and functioning cooking, sleeping, and sanitation facilities with proper ingress and egress. These rooms shall not be used for marijuana cultivation where such cultivation will prevent their primary use for cooking of meals, sleeping, and bathing;
- G. The use of flammable or combustible products, including but not limited to, propane and butane, for cultivation and processing is prohibited;
- H. Indoor lights for cultivation shall not exceed 1,200 watts per light, and shall comply with the California Building, Electrical and Fire Codes as adopted by the City;
- I. Any fully enclosed and secure structure or residence used for the cultivation of indoor marijuana shall have a ventilation and filtration system installed that shall prevent marijuana plant odors from exiting the interior of the structure and that shall comply with the Building Code adopted by the City; and
- J. Any person that conducts cultivation on the residence shall be subject to any, and all other restrictions imposed by the California Health and Safety Section 11362.2.

Implementation:

- 1. Is there any information available on commercial indoor operations and the practicality of requiring camera systems at both grow and distribution points that can be actively monitored by the police?

Response: Yes, as noted in the response on how to properly ensure the handling of cash we indicated that a surveillance system will be required as part of the state regulations and that a section of the city ordinance can require even more stringent security requirements. In addition, technology today can allow us to monitor and audit the cannabis industry without relying on human monitoring of security surveillance which is very time consuming although it is very helpful in case of a criminal investigation on the business operations.

2. Is there data on making higher level THC extraction facilities fire safe?

Response: Yes. City staff has outlined a variety of requirements that can be incorporated in a regulatory ordinance which will comply with the latest fire code requirements such as mandating a Class I, Division I, Closed Loop system for all Type 7 (Volatile extractions) permits.

3. Would commercial indoor or outdoor marijuana growing be considered, “agriculture” in the green belt and is there a method whereby we could prohibit or selectively prohibit (allow indoor but not outdoor or vice versa) commercial growing in the area?

Response: Yes. Commercial indoor or outdoor marijuana growing would be considered agriculture in the greenbelt. However, SB 94 stipulates cities retain full land use authority as to cannabis businesses; cities may prohibit such businesses entirely, allow only some, or allow them with locally developed regulations that fit local needs. We believe this would allow Riverside to ban such use in the greenbelt

4. If the City Council votes to authorize retail sales:

- a. What are the other necessary decision points the council would need to take, including a timeline?

Response: Council will need to identify the sensitive buffers that it wishes to have in the regulatory ordinance. State law requires a 600-foot radius for K-12 schools, commercial day cares and youth facilities. Council may consider other buffers such as places of worship, rehabilitation centers, parks, etc., In addition, City Council may want to develop a merit based application process to ensure that the best actors are awarded permits and to make sure that the proper location is permissible in the City. Finally, City Council will need to adopt the proper cost recovery fees to ensure the City has fully recovered its cost of implementing the regulatory program.

- b. What is the process to establish a local tax on sales of marijuana?

Response: City Council as a first step, will need to determine when it would like to put the tax measure on the ballot. At this point it is too late to prepare a measure for approval for the November 2017 Ballot since Tax measures need to be submitted to the County Election Office by August 10, 2017. Therefore, the next feasible date would be in March or June of 2018.

- c. Does this require a vote of the public? If so, what is the threshold for approval?

Response: Yes. Approval of the voters is required in order to comply with Proposition 218, unless the City was going to consider allowing the development of a new cannabis business park in which case it could consider a development agreement in lieu of a tax for that project. In regard to the threshold for approval if it

was designated as a general purpose tax it would require 50% +1 vote. If it was designated as a special tax it would require a 66.6% vote.

5. If the City Council votes to authorize commercial growth for distribution:
 - a. What are the resulting decision points the City Council would need to take including a timeline?

Response: Council will need to identify the sensitive buffers that it wishes to have in the regulatory ordinance. State law requires a 600-foot radius for K-12 schools, commercial day cares and youth facilities. Council may consider other buffers such as place of worship, rehabilitation centers, parks, etc., In addition, City Council may want to develop a merit based application process to ensure that the best actors are awarded permits and to make sure that the proper location is permissible in the City. Finally, City Council will need to adopt the proper cost recovery fees to ensure the City has fully recovered its cost of implementing the regulatory program.

- b. What are the City Council's options in term of imposing zoning restrictions?

Response: SB 94 stipulates cities retain full land use authority as to cannabis businesses; cities may prohibit such businesses entirely, allow only some, or allow them with locally developed regulations that fit local needs.

6. Can the City Council explicitly restrict areas of the City for commercial growth (i.e., greenbelt)?

Response: Yes. SB 94 stipulates cities retain full land use authority as to cannabis businesses; cities may prohibit such businesses entirely, allow only some, or allow them with locally developed regulations that fit local needs. We believe this would allow Riverside to ban such use in the greenbelt.

7. Can growth be restricted to indoor commercial operations only?

Response: Yes. SB 94 stipulates cities retain full land use authority as to cannabis businesses; cities may prohibit such businesses entirely, allow only some, or allow them with locally developed regulations that fit local needs.

8. Can the City Council limit the number of authorized growers?

Response: Yes. SB 94 stipulates cities retain full land use authority as to cannabis businesses; cities may prohibit such businesses entirely, allow only some, or allow them with locally developed regulations that fit local needs.

Other:

Can we fairly easily produce a map showing what areas of the city would be available for sale locations if they were required to be in commercial/industrial areas and at least 1,000 feet from any residence, school (including charter, private and parochial), church, park, or day care center?

Response: No. However, please see attached map for reference purposes (Attachment 2). The attached map depicts information that staff can easily prepare based on available GIS data which does not meet the requirements in the above question. To obtain information that is not in the GIS

database, staff would have to extend additional efforts and would require an extensive process to obtain uses that do not require State licensing, etc.

OPTIONAL DIRECTION:

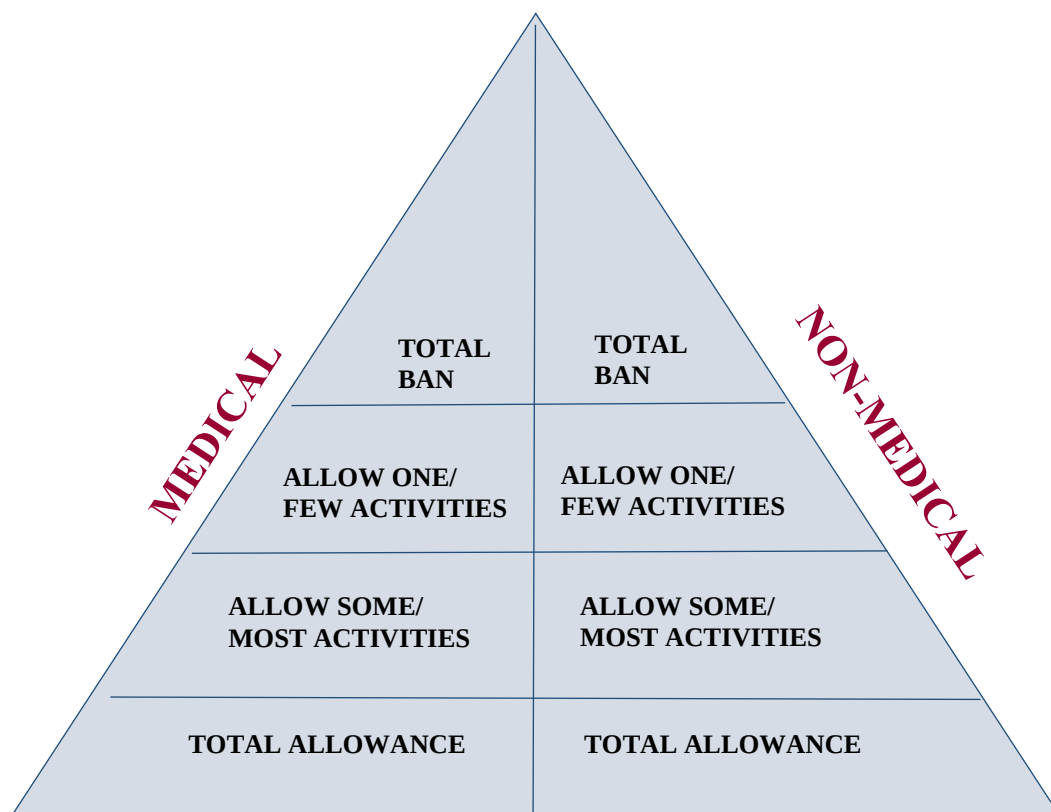
If City Council direction is to ban all commercial cannabis activity then staff should be directed to draft an ordinance to adopt this amendment.

If City Council direction is to modify existing regulations to allow any commercial cannabis activity then City Council should direct staff to which activities it should include in a regulatory ordinance for the Municipal Code. When it comes to adding a new regulation in the greenbelt, then an amendment to Proposition R and Measure C would be necessary. To accomplish an amendment, this would need to be placed on the ballot.

If City Council direction is to continue developing a regulatory policy other than a ban then it should direct staff to present Council with a moratorium until a fully developed Cannabis Regulation Program can be fully implemented. This option will eliminate any loopholes of anyone applying for a State License without the City's authorization. In addition, staff will need to be provided direction on which land use zones cannabis business will be permitted to operate in the City.

The following charts have been provided to assist City Council with providing staff direction in the implementation of the City Council Cannabis Policy.

REGULATORY OPTIONS



CATEGORIES OF USES

CATEGORY	MEDICAL	NON-MEDICAL
Cultivation	Yes/ No	Yes/No
Manufacturing	Yes/No	Yes/No
Testing (Quality Control)	Yes/No	Yes/No
Dispensary/Retailer	Yes/No (Dispensaries)	Yes/No (Retailers)
Distribution	Yes/No	Yes/No
Microbusiness*	Yes/No (Transporting)	Yes/No (Microbusiness)

*Microbusinesses are 10,000 sq. feet or less and can do everything except testing and volatile manufacturing production.

FISCAL IMPACT:

There is no fiscal impact associated with this workshop.

Prepared by: Rafael Guzman, Community & Economic Development Director
 Certified as to availability of funds: Scott G. Miller, PhD, Chief Financial Officer/City Treasurer
 Approved by: Al Zelinka, FAICP, Assistant City Manager
 Approved as to form: Gary G. Geuss, City Attorney

Attachments:

1. Presentation
2. Map