

City of Arts & Innovation

City Council Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL **DATE: JANUARY 9, 2018**
FROM: COMMUNITY & ECONOMIC DEVELOPMENT **WARDS: ALL**
SUBJECT: WORKSHOP TO RECEIVE GUIDANCE ON CANNABIS REGULATIONS AND POLICY DEVELOPMENT

ISSUE:

Discuss cannabis legislation and provide guidance to staff on the desired regulatory and policy framework for commercial cannabis uses in the City of Riverside.

RECOMMENDATIONS:

That City Council provide guidance regarding the desired regulatory and policy framework for the following commercial cannabis uses:

1. Cultivation (Indoor and Outdoor)
2. Manufacturing of Cannabis Products Including Oils and Edibles
3. Retail Sales (Dispensaries)
4. Distribution Facilities
5. Microbusinesses

BACKGROUND:

On November 8, 2016, California voters approved Proposition 64 (the Adult Use of Marijuana Act or 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. Proposition 64 was in addition to the 2015 Medical Cannabis Regulation and Safety Act (MCRSA). On June 27, 2017 Governor Jerry Brown signed Senate Bill 94, creating the Medicinal Adult-Use Cannabis Regulation and Safety Act (MAUCRSA), which effectively repealed MCRSA and incorporated certain provisions of MCRSA into the licensing provisions of AUMA, thereby integrating the rules for medicinal cannabis (MCRSA) and adult use of marijuana (AUMA). On September 16, 2017 Assembly Bill 133 was adopted, providing technical cleanups to MAUCRSA.

On March 7, 2017 and July 25, 2017, City Council held two workshops regarding cannabis

regulations. At the July workshop, City Council directed staff to prepare a moratorium on commercial marijuana activity. The City Council also directed staff to evaluate excluding marijuana testing laboratory facilities from the moratorium. In addition, City Council requested that staff continue to monitor the State's implementation and other agencies in the region.

On September 12, 2017, City Council adopted a 45-day moratorium prohibiting all land use entitlements, building permits, business licenses and any other applicable approval or decisions for commercial marijuana land uses and/or activities, as well as prohibiting all outdoor cultivation of recreation marijuana; except, however, marijuana laboratory testing facilities, which were exempted.

On September 16, 2017 the State adopted Assembly Bill (AB) 133. AB 133 cleans up incomplete and incompatible regulations initially put in Proposition 64. The technical changes to the State's cannabis regulations include operational clarifications related to cannabis cultivation, retail, delivery, and manufacturing license holders, an increase in unlawful possession criteria, and tax procedures.

On October 24, 2017, the moratorium on commercial cannabis uses was extended until September 11, 2018. Council also directed staff to prepare an additional workshop on policy options for the regulation of commercial cannabis in the City. This report has been prepared to address Council's desire to review policy options.

Most recently, City Council adopted Ordinance #7398 to permit and regulate Cannabis Testing Laboratories in industrial zones, subject to State and City licensing requirements. The effective date of the ordinance was December 28, 2017.

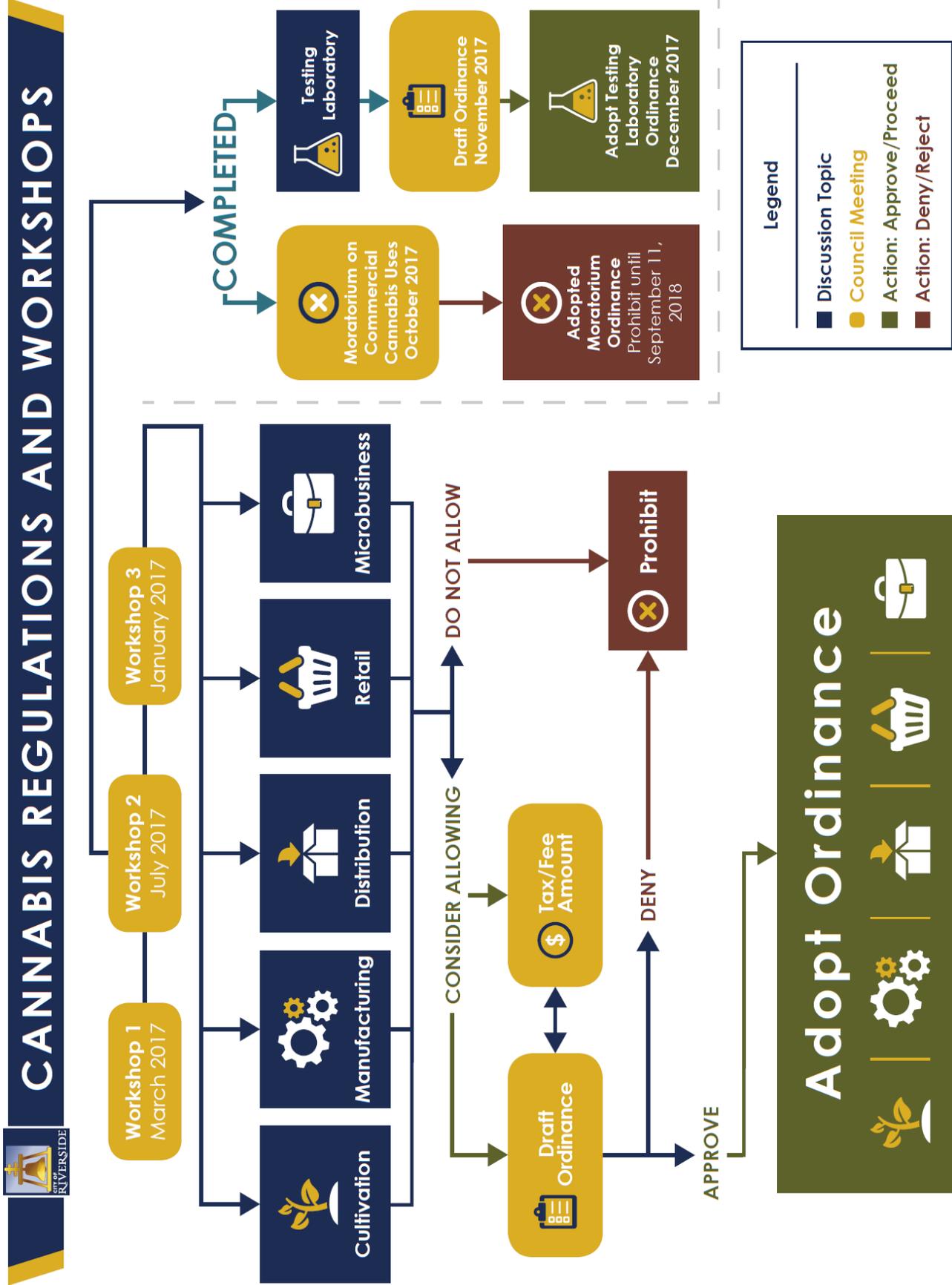
POLICY ADOPTION PROCESS:

At the October 24, 2017 hearing to extend the moratorium on cannabis uses, City Council stressed the importance of developing cannabis-related regulations as soon as possible, and directed staff to come forward with a policy framework.

On November 7, 2017, City Council adopted an ordinance amending Title 5 of the Municipal Code to allow Cannabis Testing Laboratories. Cannabis Testing Laboratories are one of six cannabis license categories. The five other remaining license types that the State will begin issuing licenses for beginning on January 1, 2018 include Cultivation, Manufacturing, Retail, Distribution Facilities, and Microbusinesses.

The six cannabis license types are independent from each other . Thus for each separate license category, City Council can decide to prohibit, consider allowing that license type, or continue consideration of that license type.

The following Cannabis Regulations and Workshop Flowchart illustrates all six of the cannabis license categories, progress towards completion, as well as an outline of the outstanding policy adoption process for the five remaining license types before City Council.



DISCUSSION/ANALYSIS:

The following analysis provides an overview of each license type; including, a description of the license type; potential concerns/impacts; possible regulatory tools to address potential impacts, a regulatory framework example, and potential revenue based on the regulatory framework example.

Also provided as part of this report are responses to outstanding questions from the July 25 and October 24 City Council hearings (*Attachment 2*), a comparison matrix of the commercial cannabis regulations for other jurisdictions (*Attachment 3*), a Fiscal Analysis Summary (*Attachment 4*), and a Sensitive Receptor Buffer Map (*Attachment 5*).

CULTIVATION LICENSES

Description:

Cannabis cultivation is generally divided into four basic categories: outdoor, indoor, mixed light (utilizing both natural and artificial light) and nursery. A combination of these cultivation techniques may occur at a site. Cultivation licenses allow for activities involving planting, growing, harvesting, drying, curing, grading and trimming. Depending on the cultivation method, the size, location, and setting of cannabis cultivation sites could vary.

Figure B: State License Types and Allowable Growing Area/Quantity			
State License Category	Allowed Growing Area/Quantity		
	Outdoor	Indoor	
	Natural Light	Artificial Light (A)	Mixed-Light (B) (Natural and Artificial)
Specialty Cottage (1C)	Up to 25 Mature Plants	Up to 500 sf	Up to 2,500 sf
Specialty (1)	Up to 5,000 sf or 50 Mature Plants	Up to 5,000 sf	Up to 5,000 sf
Small (2)	5,001 - 10,000 sf	5,001 - 10,000 sf	5,001 - 10,000 sf
Medium (3)	10,001 sf – 1 acre	10,001 – 22,000 sf	10,001 - 22,000 sf
Nursery* (4)	Up to 1 acre	Up to 1 acre	Up to 1 acre

*Allows for transport of live plants

Concerns/Potential Issues:

Of all the license types, cultivation tends to generate the most public opposition. Odor, along with energy, water and pesticides usage are the concerns most cited. Six years ago, when Colorado licensed their first commercial cannabis businesses, odor was the most common quality of life complaint for local jurisdictions.

Summary of Concerns and Issues:

1. Odors
2. Thefts/Criminal activity
3. Use of Water/Electricity
4. Pesticide use
5. Light pollution and light spill onto adjacent properties

Regulatory Considerations:

Since the legalization of commercial cannabis in Colorado and Washington, the cities of Denver and Seattle have created general nuisance odor ordinances that require cannabis businesses to submit an odor control plan. The plan is used to identify the source of potential odors and the control technologies used to prevent such odors from leaving the licensed premises. The commercial cannabis industry has also made significant effort to increase energy and water efficiency.

Summary of Regulatory Tools

1. Require Odor Control Plans
2. Require Renewable Energy Plans
3. Require a Water Management Plan
4. Restrict visible artificial lighting
5. Require Security Plans
6. Establish distance requirements from sensitive uses, i.e. schools, daycares, churches, youth centers, residences, etc.
7. Limit cultivation to indoor only

Regulatory Framework Example:

1. Indoor – Artificial Light Only (warehouse operations)
 - a. Allow **up to 4** Indoor (artificial light only) cultivation businesses citywide
 - b. Allow in industrial zones
 - c. Allow Up to 22,000 sq. ft. of canopy space
 - d. Prohibit location within 1,000 ft of sensitive receptor (i.e. school, day care, park)
 - e. Prohibit location within ½ mile from another indoor cultivation operation
 - f. Require Odor Control Plan
 - g. Require Security Plan
 - h. Require renewable energy plan that meets the South Coast Air Quality Management District (SCAQMD) requirements
 - i. Require a Water Management Plan
2. Indoor Mixed-Light (greenhouse operations)
 - a. Allow **up to 3** Indoor Mixed-Light cultivation operations citywide with permit
 - b. Allow in limited agriculture zones
 - c. Prohibit Artificial Lighting
 - d. Up to 22,000 sq. ft. of canopy space
 - e. Prohibit location within 1,000 ft of sensitive receptor (i.e. school, day care, park)
 - f. Prohibit location within ½ mile from another Indoor Mixed-Light cultivation operation
 - g. Require Odor Control Plan
 - h. Require Security Plan
 - i. Renewable energy plan that meets the South Coast Air Quality Management District (SCAQMD) requirements
 - j. Require a Water Management Plan
 - k. Require screened view of cultivation from public right-of-way
3. Continue to prohibit outdoor commercial cultivation License Type(s)

Potential Revenue Based on Regulatory Framework Example:

California's Cultivation Excise Tax will be imposed on the cultivator after the cannabis is harvested and enters the commercial market. For cannabis flower, the tax is \$9.25 per ounce. For cannabis leaves, the tax is \$2.75 per ounce. In addition, the City may establish taxes and fees to cover the

anticipated costs for City services as a result of cultivation operations, along with any other types of licensed activities that may be permitted. Figure C illustrates the potential revenue under various fee scenarios based on an assumption of seven (7) citywide cultivation permits. For example purposes, if City Council allowed the equivalent of one cultivation facility per ward for a total of seven (7) citywide, the fiscal analysis has determined that the City could generate between \$606,000 and \$1,010,000 annually in local cannabis fees/tax. Additionally, there may be potential revenue as a result of Riverside Public Utility service fees and the Citywide Utility User Tax.

Figure C – Potential Revenue from Cultivation Permit Fee & Tax					
Permit Type	Area per Permit (Sq. Ft.)	Number of Permits	Fee & Tax Scenario		
			\$6 Per sq. ft.	\$8 Per sq. ft.	\$10 Per sq. ft.
Specialty (1)	5,000	1	\$30,000	\$40,000	\$50,000
Small (2)	10,000	3	\$180,000	\$240,000	\$300,000
Medium (3)	22,000	3	\$396,000	\$528,000	\$660,000
TOTAL:		7	\$606,000	\$808,000	\$1,010,000

Options for City Council consideration:

- 1. Prohibit cultivation licenses.** Direct staff to bring back an ordinance prohibiting cannabis cultivation.
- 2. Consider allowing cultivation license.** Direct staff to craft an ordinance for City Council consideration incorporating regulatory tools discussed in this staff report, additional ideas raised during the workshop and other tools to address concerns raised relating to cannabis cultivation. A City Council public hearing would be required to review a cannabis cultivation ordinance.
- 3. Continue consideration of cannabis cultivation.** Direct staff to further study cannabis cultivation and bring back additional information for City Council consideration.

MANUFACTURING LICENSES

Description:

The Department of Health (DPH) defines Manufacturing as “all aspects of the extraction and/or infusion processes, including processing, preparing, holding, storing, packaging, or labeling of cannabis products”. Manufacturing also includes “any processing, preparing, holding, or storing of components and ingredients”. Manufacturing licenses are separated into two categories based upon the type of solvent used: Type 6 Manufacturing using non-volatile solvents, such as cold water, heat press and CO2; and Type 7 Manufacturing using volatile solvents such as butane, propane and ethanol.

Licensed cannabis manufacturing facilities are typically located in non-descript commercial buildings and require little to no signage or advertisement. As required by state law, manufacturers are expected to use professionally engineered, industrial hygienist-certified, closed-loop extraction equipment specifically designed to prevent any volatile solvents from being released into the atmosphere. When used by a trained extraction technician, the process is

intended to be safe and environmentally responsible.

Infused products and edibles manufactured in these types of facilities are the fastest growing products in the cannabis industry. Currently, edible sales account for 47% of cannabis inventory sold, and that is expected to increase. For example, in Colorado, 63% of cannabis sales are derived from edible cannabis products.

Concerns/Potential Issues:

Building and employee safety during extraction processes is a critical concern.

Summary of Concerns and Issues:

1. Large quantities of volatile gases and industrial solvents are stored on-site
2. Product theft by employees are sources of diversion to the black market
3. Products that are adulterated, or contaminated with mold, bacteria or pesticides, are harmful to consumers
4. Administrative holds and product recalls are resource intensive and time consuming

Regulatory Considerations:

As required by state law, the use of professionally engineered, industrial hygienist inspected and certified, closed-loop extraction equipment is intended to increase building and employee safety. It should be further required that all extraction activities take place in a room solely dedicated to the extraction process. If volatile gases are being used, the room must be constructed to meet National Fire Protection Association (NFPA) C1-D1 hazardous location classifications. In addition, all waste shall be disposed of in a manner so that it can't be detected or useable for any other purpose.

Regulatory Framework Example:

1. Allow **up to 7** manufacturing businesses citywide
2. Allow in Industrial zones
3. Prohibit location within 1,000 ft of sensitive receptor (i.e. school, day care, park)
4. Prohibit location within ½ mile from another manufacturing business
5. Require extraction room construction meet C1, D1 classification
6. Require installation of fire suppression systems and flammable gas detection devices
7. Require notification of any change to product line and use of extraction solvents
8. Require all extraction equipment be inspected by an industrial hygienist
9. Require all extraction technicians be trained and certified
10. Include required food handling safety training in Employee handbook
11. Require the establishment of clearly defined administrative hold and product recall procedures
12. Require that all employees be subject to a criminal background check
13. Require proper disposing of all waste per state law

Potential Revenue Based on Regulatory Framework Example:

Figure D illustrates the potential revenue under various tax scenarios. For example purposes, if City Council allowed the equivalent of one manufacturer in each ward, for a total of seven (7) Citywide, the fiscal analysis indicates that the City could generate between \$437,500 and \$1,050,000 annually in a local cannabis tax.

Figure D: Potential Revenue from Local Cannabis Manufacturing Tax					
Number of Permits	Gross Receipts	Total Gross Revenue	Tax Scenario		
			2.5%	4%	6%
3	\$2,500,000	\$7,500,000	\$187,500	\$300,000	\$450,000
5	\$2,500,000	\$12,500,000	\$312,500	\$500,000	\$750,000
7	\$2,500,000	\$17,500,000	\$437,500	\$700,000	\$1,050,000

Options for City Council consideration:

- 1. Prohibit cultivation licenses.** Direct staff to bring back an ordinance prohibiting cannabis manufacturing.
- 2. Consider allowing cultivation license.** Direct staff to craft an ordinance for City Council consideration incorporating regulatory tools discussed in this staff report, additional ideas raised during the workshop and other tools to address concerns raised relating to cannabis manufacturing. A City Council public hearing would be required to review a cannabis manufacturing ordinance.
- 3. Continue consideration of cannabis cultivation.** Direct staff to further study cannabis manufacturing and bring back additional information for City Council consideration.

RETAIL LICENSES

Description:

As defined by the Bureau of Cannabis control, a Cannabis Retailer is a person licensed to sell cannabis goods to customers as “a retailer, microbusiness, or nonprofit.” The retail component of the supply chain is by design the most visible segment of the commercial cannabis industry. As such, retail sales locations have been subject to the most scrutiny. Retail sales locations should be thoughtfully zoned, designed, and constructed in a manner that is suitable for the neighborhood to create the least amount of impact to the surrounding businesses and neighborhood.

In addition to being highly visible to the public, the retailer is at the end of the cannabis supply chain and thus where the inventory is under the most stringent control. The final product has been tested, packaged, labeled and accounted for down to the gram. Also retailers, tend to employ the fewest number of staff members and have the highest rate of employee retention among the license types such as cultivation or manufacturing. Under robust security measures and accessible to the fewest number of employees, there is generally very little theft from a retail sale establishment. In the six years that Colorado has been overseeing commercial cannabis activities, there have only been 8 reported violent crimes at retail sales locations.

Based on the current demand for retailer locations (dispensaries), retail locations can generate substantial revenues compared to other retail establishments within jurisdictions. For example, cannabis retailers currently generate on average \$933 per square foot, which exceeds other retail stores such as Whole Foods (\$903), Walgreens (\$720), Wal-Mart (\$446), The Gap (\$334), Kohl’s (\$228) and Dick’s Sporting Goods (\$184). A reason for this that most retail stores take up much more space than dispensaries, cannabis retailers stock a lot of product into a relatively small amount of space, and the average price point for marijuana is attractive to consumers.

Concerns/Potential Issues:

When Colorado and Washington licensed their first commercial cannabis retail outlets, very little thought was given to their location. Shortly thereafter local agencies started experiencing high concentration of cannabis activity in certain neighborhoods. While it is difficult to develop the right formula, well defined buffers, minimum distance requirements, and preventing oversaturation by limiting the number of permits should be considered when designing an ordinance.

Summary of Concerns and Issues:

1. Volume of inventory on display at any given time
2. Point of sales and inventory control data entered by employees properly
3. Poorly trained employees create inventory tracking problems

Regulatory Considerations:

Although inventory is accounted for down to the ounce, robust inventory tracking requirements should be required and strictly enforced to mitigate employee theft. Robust inventory control measures should be considered in order to increase accountability and deter diversion.

Regulatory Framework Example:

1. Allow **up to 7** retail businesses citywide
2. Allow in Commercial zones
3. Prohibit location within 1,000 ft of sensitive receptor (i.e. school, day care, park)
4. Require all inventory (including edibles and concentrates) be locked and secured in a safe, vault or secured room when the business is closed.
5. Require that the Standard Operating Procedures provide ongoing point of sales and inventory tracking data entry training to all employees
6. Limit the amount of inventory on display to the equivalent of two days sales (increases inventory accountability and reduces volume of odor)
7. Require the business to assign one individual to the position of inventory manager
8. Require that all inventory and sales transactions be reconciled by end of businesses
9. Consider security by environmental design when reviewing and approving site plans
10. Require that all employees be subject to a criminal background check

Potential Revenue Based on Regulatory Framework Example:

For example purposes, if City Council allowed the equivalent of one retailer in each ward, for a total of seven (7) citywide, the fiscal analysis has determined that the City could generate between \$560,000 and \$1,344,000 annually in a local cannabis tax (Figure E). These numbers do not include the local sales tax, which could generate an additional \$224,000 annually.

Number of Permits	Gross Receipts	Total Gross Revenue	Tax Scenario		
			2.5%	4%	6%
3	\$3,200,000	\$9,600,000	\$240,000	\$384,000	\$576,000
5	\$3,200,000	\$16,000,000	\$400,000	\$640,000	\$960,000
7	\$3,200,000	\$22,400,000	\$560,000	\$896,000	\$1,344,000

Options for City Council consideration:

1. **Prohibit cultivation licenses.** Direct staff to bring back an ordinance prohibiting cannabis retail sales.

- 2. Consider allowing cultivation license.** Direct staff to craft an ordinance for City Council consideration incorporating regulatory tools discussed in this staff report, additional ideas raised during the workshop and other tools to address concerns raised relating to cannabis retail sales. A City Council public hearing would be required to review a cannabis retail sale ordinance.
- 3. Continue consideration of cannabis cultivation.** Direct staff to further study cannabis retail sale ordinance and bring back additional information for City Council consideration.

DISTRIBUTION

Description:

The Distribution model is a fundamental component of the cannabis supply chain. Under state law, distributors are the only licensed business type that can transport inventory between licensed cannabis businesses. In addition to transporting inventory between licenses, distribution companies will also be responsible to ensure the examination of inventory at a testing laboratories and the collection of the State's Excise Taxes, before releasing the product to a retailer. Cultivators, manufacturers, and retailers also have the opportunity hold a distribution licenses as well, provided the distributors licensed premises are "separate and distinct". This is to ensure that the various administrative privileges and inventory tracking requirements are strictly adhered to. Licensed Distributors will be required to establish comprehensive security measures to ensure the inventory is secured during transit, and accounted for with manifest documentation. Distributors will be required to be licensed in a commercial or industrial building, requiring little to no signage or advertisement.

Concerns/Potential Issues:

Distribution licenses will be responsible for securing large quantities of inventory, while ensuring it is all properly tested and transported to licensed businesses. Distribution operators will also be required to collect taxes. Inventory tracking and money handling are potential issues that will have to be addressed through regulatory oversight

Summary of Concerns and Issues:

1. Adequate security and control of inventory while being stored on-site
2. Adequate security and control of inventory while inventory is being transported
3. Cash handling procedures and availability to banking

Regulatory Framework Example:

1. Allow **up to 7** micro-businesses citywide
2. Allow in Industrial zones
3. Prohibit location within 1,000 ft of sensitive receptor (i.e. school, day care, park)
4. Require the entire distribution facility to be designated as a limited access facility, preventing visitor, contractors or non-employees from entering without an escort by a designated manager
5. Inspect and approve the safe, vault or secured room prior to issuance of license
6. Require that all vehicles used to transport inventory be equipped with GPS
7. Require that a computer generated manifest occur prior to the transportation of inventory
8. Prohibit non-authorized employees within vehicles during deliveries to licensed businesses
9. Require that inventory should be locked and secured in an approved case, safe or cabinet, including when in transit
10. Require that all employees be subject to a criminal background check

Potential Revenue Based on Regulatory Framework Example:

For example purposes, if City Council allowed the equivalent of one Distributor in each ward, for a total of seven (7) citywide, the fiscal analysis has determined that the City could generate between \$350,000 and \$840,000 annually in a local cannabis tax (Figure F).

Figure F – Potential Revenue from Local Cannabis Distribution Tax					
Number of Permits	Gross Receipts	Total Gross Revenue	Tax Scenario		
			2.5%	4%	6%
3	\$2,000,000	\$6,000,000	\$150,000	\$240,000	\$360,000
5	\$2,000,000	\$10,000,000	\$250,000	\$400,000	\$600,000
7	\$2,000,000	\$14,000,000	\$350,000	\$560,000	\$840,000

Options for City Council consideration:

- 1. Prohibit cultivation licenses.** Direct staff to bring back an ordinance prohibiting cannabis distribution.
- 2. Consider allowing cultivation license.** Direct staff to craft an ordinance for City Council consideration incorporating regulatory tools discussed in this staff report, additional ideas raised during the workshop and other tools to address concerns raised relating to cannabis distribution. A City Council public hearing would be required to review a cannabis distribution ordinance.
- 3. Continue consideration of cannabis cultivation.** Direct staff to further study cannabis distribution and bring back additional information for City Council consideration.

MICROBUSINESS

Description:

The Microbusiness is the newest and most complex license to be issued by the State. This type of license will be allowed to conduct cultivation of cannabis on an area of less than 10,000 square feet of canopy space and act as a licensed distributor, Level 1 manufacturer and retailer. The State will generally require microbusinesses to comply with standards applicable to cultivators, distributors, manufacturers and retailers, which means the City will have to take these activities into consideration when deciding on the appropriate zoning. The Microbusiness model was designed to create opportunities for small business owners to enter the cannabis market. Additionally, the model further helps social equity issues as they relate to economic and technical barriers. If efficiently ran, the vertically integrated model of a microbusiness can be very profitable, as it reduces the overhead cost of operating multiple locations and paying various levels of taxes on the same product they own. The down side to the microbusiness model is that, if a business owner is unable to successfully manage all segments of the supply chain, they could ultimately become a compliance liability and a higher risk of failure, especially if they have no previous experience running a cannabis business in a regulated market.

Concerns/Potential Issues:

Microbusinesses incorporate multiple commercial cannabis business activities. As such, they will have to comply with standards applicable to cultivators, distributors, manufacturers and retailers. Because of the various activities that take place under one roof, local licensing agencies will have

to consider the appropriate zoning, buffering and setbacks for microbusinesses. Microbusinesses will experience the same concerns and potential issues as the other stand-alone licenses. One of the most concerning issues with microbusinesses is the control of the inventory as it flows throughout the internal supply chain. Other states have experienced inventory control problems at locations that have multiple licenses under one roof.

Regulatory Considerations:

A microbusiness license should incorporate all the mitigation measures listed for the other licenses. Robust security and inventory tracking should be the first priority when establishing regulatory ordinances, as well as the review and approval of business plans.

Regulatory Framework Example:

1. Allow **up to 7** microbusinesses citywide
2. Allow in Commercial zones
3. Allow only Indoor – Artificial Light only operations
4. Allow up to 10,000 sq. ft. of canopy space for cultivation
5. Prohibit location within 1,000 ft of sensitive receptor (i.e. school, day care, park)
6. Prohibit location within ½ mile from any other license type including another microbusiness
7. Require all inventory (including edibles and concentrates) be locked and secured in a safe, vault or secured room when the business is closed.
8. Standard Operating Procedures should require that all employees receive ongoing point of sales and inventory tracking data entry training
9. Limit the amount of inventory on display to the equivalent of two days sales (increases inventory accountability and reduces volume of odor)
10. Require the business to assign one individual to the position of inventory manager
11. Require that all inventory and sales transactions be reconciled by end of business
12. Consider security by environmental design when reviewing and approving site plans
13. Require that all employees be subject to a criminal background check
14. Require the entire distribution facility should be designated a limited access facility, preventing visitor, contractors or non-employees from entering without an escort by a designated manager
15. Inspect and approve the safe, vault or secured room should be inspected and approved before issuance of license
16. Require that all vehicles used to transport inventory should be equipped with GPS
17. Require that a computer generated manifest occur prior to the transportation of inventory
18. Prohibit non-authorized employees within vehicles during deliveries to licensed businesses
19. Require that inventory should be locked and secured in an approved case, safe or cabinet, including when in transit
20. Require Odor Control Plan
21. Require Security Plan
22. Renewable energy plan that meets the South Coast Air Quality Management District (SCAQMD) requirements
23. Require a Water Management Plan
24. Limit visible artificial lighting
25. Require extraction room construction meet C1, D1 classification
26. Require installation of fire suppression systems and flammable gas detection devices
27. Require notification of any change to product line and use of extraction solvents
28. Require all extraction equipment be inspected by an industrial hygienist
29. Require all extraction technicians be trained and certified
30. Include required food handling safety training in Employee handbook
31. Require the establishment of clearly defined administrative hold and product recall

procedures

- 32. Require that all employees be subject to a criminal background check
- 33. Require proper disposing of all waste per state law

Potential Revenue Based on Regulatory Framework Example:

For example purposes, if City Council allowed the equivalent of one one Microbusiness in each ward, for a total of seven (7) citywide, the fiscal analysis has determined that the City could generate between \$612,500 and \$1,470,000 annually in a local cannabis tax (Figure G).

Figure G – Potential Revenue from Local Cannabis Microbusiness Tax					
Number of Permits	Gross Receipts	Total Gross Revenue	Tax Scenario		
			2.5%	4%	6%
3	\$3,500,000	\$10,500,000	\$262,500	\$420,000	\$630,000
5	\$3,500,000	\$17,500,000	\$437,500	\$700,000	\$1,050,000
7	\$3,500,000	\$24,500,000	\$612,500	\$980,000	\$1,470,000

Options for City Council consideration:

1. **Prohibit cultivation licenses.** Direct staff to bring back an ordinance prohibiting cannabis microbusinesses.
2. **Consider allowing cultivation license.** Direct staff to craft an ordinance for City Council consideration incorporating regulatory tools discussed in this staff report, additional ideas raised during the workshop and other tools to address concerns raised relating to cannabis microbusinesses. A City Council public hearing would be required to review a cannabis microbusiness ordinance.
3. **Continue consideration of cannabis cultivation.** Direct staff to further study cannabis microbusinesses and bring back additional information for City Council consideration.

FISCAL IMPACT:

There is no fiscal impact to the General Fund as a result of this workshop. To facilitate discussion, the City’s consultant, HdL, has prepared a fiscal analysis of potential revenue with the legalization and permitting of a variety of commercial cannabis uses and the adoption of a cannabis use tax (Attachment 4). Should the City Council choose to allow commercial cannabis uses, the City could potentially generate between \$1,446,000 to \$5,714,000 in revenue annually. Based on the mix of allowable uses, the revenue could be used to offset public safety and other regulatory costs not covered through regulatory fees.

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 Certified as to availability of funds: Adam Raymond, 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. Responses to Additional Outstanding Questions
3. Comparison Matrix of Cannabis Regulations for Other Jurisdictions
4. Commercial Cannabis Fiscal Analysis Summary
5. Commercial Cannabis Sensitive Receptor Buffer Map