



*City of Arts & Innovation*

# City Council Memorandum

**TO: HONORABLE MAYOR AND CITY COUNCIL      DATE: AUGUST 19, 2025**

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

**SUBJECT: PUBLIC HEARING — AMEND FISCAL YEAR 2025/26 FEES AND CHARGES SCHEDULE; RESOLUTION TO ESTABLISH THE PROPOSED TESTING LABORATORY COMMERCIAL CANNABIS PERMIT PROCEDURE GUIDELINES, AND A RESOLUTION AMENDING THE CITY'S FEES AND CHARGES SCHEDULE PROVIDING FOR A TESTING LABORATORY COMMERCIAL CANNABIS BUSINESS PERMIT APPLICATION FEE.**

## **ISSUE:**

Conduct a public hearing for the proposed user fee and charges and adopt a Resolution to establish the proposed Testing Laboratory Commercial Cannabis Business Permit Procedure Guidelines and Adopt a Resolution to amend the City's Fees and Charges Schedule providing for a Cannabis Testing Laboratory Application Fee of \$7,511.

## **RECOMMENDATIONS:**

That the City Council:

1. Conduct a public hearing on the amendment to the City of Riverside's Fiscal Year 2025/26 Master Fees and Charges Schedule for the addition of the Cannabis Testing Laboratory Application Fee;
2. Adopt a Resolution to adopt the Testing Laboratory Commercial Cannabis Business Permit Procedure Guidelines; and
3. Adopt a Resolution amending the City's Fees and Charges Schedule to add a testing laboratory commercial cannabis business permit application fee of \$7,511.

## **BACKGROUND:**

On February 28, 2023, the City Council introduced and on March 14, 2023 the City Council adopted Ordinance 7628, amending Title 5 (Business Taxes, Licenses, and Regulations) of the Riverside Municipal Code (RMC), and replacing Chapter 5.77 (Cannabis Business Activities) in its entirety, Ordinance 7629 amending Title 9 (Peace, Safety, and Morals) of the RMC, and Ordinance 7630 amending Title 19 (Zoning) of the RMC.

Chapter 5.77 of the RMC regulates Cannabis Business Activities, including the types of businesses and maximum number of businesses permitted. The RMC allows up to 14 retail storefront commercial cannabis business permits as well as an unlimited number of manufacturing, distribution, and testing laboratories. All commercial cultivation operations and micro businesses are prohibited.

In addition to the types and number of commercial cannabis businesses (CCB) permitted, Chapter 5.77 also includes the following key provisions that apply to all commercial cannabis businesses, including cannabis testing laboratories:

- Permittees must hold required State licenses/permits, City business tax certificates, and any required Building Permits or Certificates of Occupancy.
- The City Council must adopt Procedure Guidelines to establish an application review process, including timeframes and requirements for permit issuance.
- The City Council will establish an application fee by resolution to cover costs to the City.
- All applicants with five or more employees shall enter into a Labor and Peace Agreement.
- All applicants must agree to provide community benefits.
- Applicants and permittees must agree to indemnify and release City from all liability related to permit issuance, business operations, or legal challenges and must maintain adequate insurance coverage.
- Permittees must submit an annual financial audit, report gross revenues, register all owners, managers, employees; must maintain inventory control and reporting system; and must report inventory loss, theft, or security breaches.
- Cannabis businesses must meet all required General Plan, Zoning, Specific Plan, and development standards, including location restrictions.
- Permittees must designate a Security Liaison reporting to the City Manager and Police Chief.
- Permittees must designate a community relations contact person to meet and discuss issues and concerns with the City; contact information shall be provided to all businesses and residences within 100 feet of the premises.

In 2019, the City received an entitlement application for a cannabis testing laboratory, which has been working on and off on its building permit submittal and construction. The applicant has expressed a desire to move forward with their business operations and construction is almost complete. To receive a certificate of occupancy and be eligible to open, the construction must pass a final inspection, and the applicant must obtain a testing laboratory commercial cannabis permit. While Chapter 5.77 allows for testing laboratories, the City has yet to adopt a procedure for the application or issuance of a permit to operate Testing Laboratory commercial cannabis businesses.

## **DISCUSSION:**

To develop the framework of the proposed Cannabis Testing Laboratory Permit Procedure Guidelines, staff used the existing retail storefront CCB guidelines document as a base, as many of the requirements in Chapter 5.77 of the RMC apply to all commercial cannabis businesses. Sections of the retail storefront guidelines that did not apply to testing laboratories were removed and replaced with the operating requirements for testing labs in Chapter 5.77.440. Staff also researched the permitting process for cannabis testing laboratories used by other jurisdictions. Staff developed the proposed testing laboratory CCB permit procedure guidelines based on this

research and the changes to the existing retail storefront guidelines.

### **Testing Laboratory CCB Permit Procedure Guidelines**

Presented as part of this item are the permit procedure guidelines for cannabis testing laboratories which are summarized below. Full language is included as Attachment 3.

#### **Application Process**

Application Period: Applications for testing laboratories CCB permits may be submitted at any time or until which time the City provides written notice on the City's website that it will no longer be accepting applications.

Application Submittal Process: The applicant will be required to submit:

1. Application Form
2. Premises Information
3. Business Plan
4. Operations Plan
5. Safety/Security Plan
6. Site Details
7. Background Form
8. Defense and Indemnification Form
9. Laboratory Certification
10. Application Fee

#### **Step 1 – Preliminary Approval**

Application Review Clearance: All applications will be reviewed as they are received to ensure all required information has been provided and fees have been paid.

Preliminary Approval: Applications and required documents are reviewed for compliance with State law, the Riverside Municipal Code, and the permit procedure guidelines. If an applicant is determined to have met all application requirements, including clearance of the required ownership review and background check, the applicant will be notified they have received preliminary approval.

#### **Step 2 – Provisional Approval**

Applicants receiving preliminary approval proceed to Step 2, which requires the applicant to:

1. Demonstrate proof of property control, and
2. Execute a Commercial Cannabis Operational Agreement with the City

Once an applicant has submitted satisfactory evidence of property control and has executed, in a manner deemed acceptable by the City Manager and City Attorney, a commercial cannabis operational agreement, the applicant will be notified they have received provisional approval.

#### **Step 3 – Final Permit Approval**

Applicants who receive Provisional Approval then proceed to the final step of the permitting

process, Final Permit Approval. The City Manager may grant Final Permit Approval if the following conditions are met:

1. Approval of an operational agreement by City Council
2. Obtain all State licenses
3. Obtain City of Riverside Business Tax Certificate
4. Entitlements (as deemed necessary by the Planning Division)
5. Obtain all required building, fire, and occupancy permits, commence and complete construction, and obtain final permit approvals to be able to open the business to the public.

### **Testing Laboratory CCB Application Fee**

The City Council shall establish fees and charges associated with the operation of a cannabis activity in accordance with RMC Chapter 5.77.360.

The City desires to establish an application fee to cover the reasonable regulatory costs to the City associated with the review and issuance of Testing Laboratory Commercial Cannabis Business Permits. Staff conducted an application fee study (Attachment 5) to develop a fee structure and calculate the full cost of the City's activities associated with developing and implementing a Testing Laboratory Commercial Cannabis Business Permit application process. The approach to establishing the fee has been based on several factors, including:

1. Review and Analysis of other city's fees for similar services.
2. Tasks in the guidelines associated with staff time and materials.

#### **1. Review and Analysis of Other City's Fees**

Staff surveyed comparable cities in Southern California with established cannabis programs. The survey reviewed each agency's application fee for Testing Laboratories. If cities did not establish a separate fee for testing labs, staff confirmed the commercial cannabis business application fee established applied to testing lab applications. The review also sought to identify similarities and differences in the processes of the surveyed agencies. The fee study results help the City better understand its costs to develop, process, and issue Testing Lab CBB permits, serving as a basis for informed policy decisions regarding the most appropriate fees to collect from applicants.

The outcomes of the fee survey are shown in the table below. It is important to note that because the cannabis business reviews and permitting processes are still relatively new, finding a standard practice, best practice, or comparative methodology is challenging. In establishing a fee, cities have taken various approaches to reflect their processes, time estimates, community values, and anticipated costs. This diversity in approach is also evident in the application process and the fees established. Many agencies have instituted a process and fee and, after the first year, have amended both to adjust to lessons learned through the initial review.

Review of other agencies shows the predominant use of two approaches to fee and cost recovery:

- Flat Fee
- Deposit Method

Flat Fee: Several cities employ a flat fee for the application and permit. This approach is typically based on a time-and-material basis estimated to recover the reasonable regulatory costs associated with the review and processing of the permit. Agency's employing this fee have found benefit in reducing the burden for staff to track time, minimizing the need for administrative review

for audit and reconciliation, reducing challenges by applicants for varying costs associated with one review over another, and increasing predictability of the costs to embark on the effort. The potential challenge to this flat fee approach is underestimating time required for staff to review and process the applications for any of the identified steps.

**Deposit Method:** In some cases, cities have established a deposit method whereby the applicant submits a deposit amount and time and fees (application fee, business license, inspection, etc.) are charged against the deposit. Additionally, the staff time, including facilitator/administrative time, staff review time, communication, and processing time, are all charged on an hourly basis against the deposit. The benefit of this fee method is the ability to recover reasonable regulatory costs associated with each application rather than an average of time attributed to all. The challenges associated with this method include the increase in administrative time and burden on staff for time tracking, the potential challenge raised by applicants regarding the cost of one application review compared to another, as well as the impact on the administrative time required to collect and process deposit and refund amounts.

| <b>Testing Laboratory Commercial Cannabis Business Permit Application Fee:</b><br><i>City Fee Comparisons</i> |           |               |          |                  |                |          |          |           |            |          |            |
|---|-----------|---------------|----------|------------------|----------------|----------|----------|-----------|------------|----------|------------|
| Activity  | Riverside | Moreno Valley | Corona   | Riverside County | San Bernardino | Pomona   | Pasadena | Santa Ana | Long Beach | Perris   | Costa Mesa |
| Testing Lab Application Fee   | \$7,511   | Not Allowed   | \$8,878  | \$9,646.14       | \$15,015.55    | \$13,158 | \$16,654 | \$13,500  | \$5,925    | \$16,008 | \$20,380   |
| Type  | Flat Fee  | NA            | Flat Fee | Deposit          | Flat Fee       | Flat Fee | Flat Fee | Flat Fee  | Flat Fee   | Flat Fee | Annual Fee |

## 2. Tasks in the Guidelines associated with staff time and materials

To determine the amount of the flat fee, staff employed a typical standard approach for analyzing the cost of providing fee-related services. This is commonly referred to as a “bottom-up” approach and includes the following steps.

- Identify all direct staff time spent on the fee-related activity or service;
- Calculate the direct cost of the staff time for each fee using productive hourly rates;
- Determine any other operational costs (i.e., other than personnel costs) that can readily be traced to a specific fee-related service as a direct cost; and
- Determine indirect or “overhead” costs (i.e., administrative support, departmental and citywide)

Using the Guidelines to identify all fee-related services and activities, staff created a list of all of the steps necessary in the review process. The permitting process for testing laboratory CCBs is similar to the storefront retail CCB permitting process with one significant distinction: the RMC does not establish a limit to the number of testing laboratories that can operate in the City. As a result, the testing lab permit process does not include a merit-based evaluation to identify top-ranked applicants.

### Testing Laboratory: Application Review Fee:

Staff reviewed the tasks and staff time associated with the proposed guidelines, estimating the staff time required for site review, zoning verification, background checks, site plan review, safety and security compliance, and other key review requirements associated with this process. This flat fee is determined to be \$7,511. Given that the City is basing this application fee on estimates of staff time and steps needed, staff recommends that the fees be evaluated periodically to ensure

they are commensurate with the tasks and time involved.

Once the guidelines are approved, applicants for a Testing Laboratory CCB Permit will be required to submit all the necessary documents specified in the permit procedure guidelines and pay the established application fee at the time of application.

### **FISCAL IMPACT:**

The proposed application fee was calculated based on staff time estimates with a 100% cost recovery for the work associated with the review of the application and permit process.

On October 22, 2024, City Council approved a tax rate of 8% for all Commercial Cannabis Businesses, including testing laboratories. Actual revenues will depend on the number of cannabis testing laboratories in operation and the gross revenues generated by each business.

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| Prepared by:                              | Kyle Warsinski, Senior Project Manager                             |
| Approved by:                              | Jennifer A. Lilley, Community & Economic Development Director      |
| Certified as to<br>availability of funds: | Kristie Thomas, Finance Director/Assistant Chief Financial Officer |
| Approved by:                              | Mike Futrell, City Manager   |
| Approved as to form:                      | Rebecca McKee-Reimbold, Interim City Attorney                      |

### **Attachments:**

1. Resolution – Approving the Testing Laboratories CCB Permit Procedure Guidelines and Application Review Criteria
2. Resolution – Establishing the Cannabis Testing Laboratory Application Fee
3. Testing Laboratories CCB Permit Procedure Guidelines and Application Review Criteria
4. Fee Study
5. Presentation