



Commercial Cannabis Fee Study Phase II

City of Riverside, CA

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Introduction

MGT is pleased to present the City of Riverside with this summary of findings for the second phase of the Commercial Cannabis Fee cost analysis. This cost analysis is a follow-up to the recently completed studies for the Commercial Cannabis storefront retail application fee and permit and the Commercial Cannabis Appeals fee. The second phase of MGT's study looked at programs the City is proposing to implement along with associated costs in the ongoing monitoring of commercial cannabis businesses, including retail storefronts, after the business owners have applied, received their permits, and established their businesses.

Working with the Economic Development Department, MGT calculated the full cost of the City activities associated with the ongoing operation and monitoring of the commercial cannabis program. MGT reviewed the costs using fiscal year 2024-2025 budgeted departmental expenditures and personnel costs and gathered data from key city departments responsible for these activities. The objectives of the MGT project were to determine costs, develop fee methodology, document city processes, and develop appropriate fees to support this endeavor and the associated activities.

Legal Foundations

State Marijuana Laws

On November 8, 2016, California voters passed Proposition 64, entitled the Control, Regulate, and Tax Adult Use of Marijuana Act ("AUMA"). Adults over 21 years old may possess, consume, manufacture, distribute, test, and cultivate nonmedical, recreational marijuana in California. However, businesses may not grow, distribute, or sell nonmedical, recreational marijuana until they receive a state license. The State began to issue licenses January 1, 2018. Before obtaining a state license, businesses must seek a local license and obtain approval to operate/use a specific location first. SB 64 and SB 94 were passed thereafter, further clarifying State marijuana/cannabis laws. On June 27, 2017, The Medical and Adult Use Cannabis Regulation and Safety Act ("MAUCRSA") was signed into law. The MAUCRSA law provides a comprehensive regulatory framework for licensing, control, and taxation of medical and adult-use cannabis-related businesses in California.

Local Cannabis Laws

On March 14, 2023, the City Council approved Ordinances 7628, 7629, and 7630. Ordinance 7628 amended Title 5 (Business Taxes, Licenses, and Regulations) of the Riverside Municipal Code (RMC) and replaced Chapter 5.77 (Cannabis Business Activities) in its entirety. Ordinance 7629 amended Title 9 (Peace, Safety and Morals) of the RMC, and Ordinance 7630 amended Title 19 (Zoning) of the RMC and directed staff to develop and implement a Cannabis Business Permit Program, including the development of a Cannabis Equity Program, and established a 1,000-foot buffer from K-12 schools.

Chapter 5.77 of the RMC regulates Cannabis Business Activities in the City of Riverside, including the types and maximum number of businesses permitted within the City. Based on City Council Direction, Chapter 5.77 allows up to 14 storefront retail cannabis businesses as well as an unlimited number of manufacturing/distribution cannabis businesses and Cannabis testing laboratories. Currently, all commercial cannabis cultivation operations and cannabis microbusinesses are prohibited. Note that the scope of MGT's study was limited to commercial cannabis businesses.

User Fee Law

In California, local government is granted the authority to impose user and regulatory fees for services by the State Constitution. As defined by Article XIIIIC, Section 1, a fee may not exceed the estimated reasonable cost of providing the service. For a fee to qualify under this authority, it must relate to a service or activity requested by an individual. If this request causes the local agency to perform a service that is either discretionary or subject to regulation, then it is considered a user fee. The City's authority to charge user fees is also further clarified by California Government Code Sections 54985, 66014, Proposition 218 and 26.

Cost Calculations

Fee Methodology

The standard approach for analyzing the cost of providing fee-related services is commonly referred to as a “bottom-up” approach. The bottom-up approach was used to analyze these commercial cannabis regulation fees. A general description of the “bottom up” approach is as follows:

1. Identify all direct staff time spent on the fee related activity or service - MGT conducted a series of meetings with the subject matter experts of the commercial cannabis program, including representatives from Economic Development, Planning, and Finance. MGT then provided detailed templates and instructions to, and collected data from, staff from Finance, Community Development, Police, Fire, City Manager, and City Attorney departments, that identified every employee, by classification, who performed and will perform work directly in support of fees related to commercial cannabis businesses and regulation. Direct staff costs are incurred by employees who are “on the front line” and most visible to the customers (e.g. Inspectors, counter staff, plan reviewers, etc.), as well as employees who are “behind the scenes”, reviewing applications to ensure all required documentation is in order. Once all direct staff were identified, departments estimated how much time those employees spend on average working on each fee service.

Developing time estimates for fee-related services can be challenging and departments should be commended for the time and effort they put into this. Although MGT provided departments with templates and other tools to assist them in developing average or “typical” time estimates, these calculations were necessarily developed by the subject matter experts in each operating department.

2. Calculate direct cost of the staff time for each fee using productive hourly rates - Productive hourly rates are used to support full cost recovery. A full-time City of Riverside employee typically has 2,080 paid hours per year (40 hours x 52 weeks). However, cost studies reduce this number to account for non-productive hours (sick leave, vacation, holidays, training, meetings, etc.). MGT calculated the productive hourly rate for each classification based on the salary and benefit information provided by the City and an analysis of annual productive hours by classification. For the employees in this study, the productive hours used were 1,728, deducting time for paid leave, sick time, and holidays.

3. 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. Professional services contracts are an example of an expense that can often be traced to a specific service or program.
4. Determine indirect or “overhead” costs - Generally, there are two types of indirect costs: departmental and citywide overhead. These indirect costs are allocated across user fee services to capture the full cost of providing the service. If a department performs non-fee related services, a commensurate amount of indirect cost is segregated and not allocated to the fee related services.
 - a. Departmental overhead costs – these costs include managers, supervisors, and support staff as well as other operational costs, such as materials and supplies that are incurred for a common purpose and not readily assigned to a service or program.
 - b. Citywide overhead costs – each department and fund within the city receives an allocation of cost from the city’s various central service departments. Central service departments are those whose main function is to support other city departments and funds. Such departments include Management Services, City Attorney, Human Resources, Administrative Services-Finance, and Information Technology. The methods for allocating central service costs can vary but must demonstrate a causal relationship between the allocation methodology and the costs allocated to the operating department. There are some state and federal guidelines that stress the importance of allocating citywide overhead costs in a way that “equitably reflects the value of service” provided to the department receiving the service(s). In most cases, industry standards call for one of the following methodologies for allocating central services costs:
 - ◆ Number of full-time equivalent staff in the operating department
 - ◆ Total operating budget, excluding debt and certain non-operating costs
 - ◆ Actual or estimates of time spent in support of the operating department based on documented procedures

Data and Sources

The source for cost information for the calculations in this report are the City’s 2024-2025 budgeted costs. The City provided MGT with salaries, expenditures and cost allocation charges budgeted for the city’s 2024-2025 fiscal year.

Full Cost Hourly Rate

Full cost hourly rates include Indirect costs such as departmental and citywide overhead and are based on 1,728 productive hours of a 2,080 year. Productive hours are the hours an employee is available to work and do not include paid leave, breaks and staff meetings. The departments participating in the managing and monitoring of commercial cannabis businesses are shown below:

- ◆ Community Development, Economic Development division
- ◆ Community Development, Planning division
- ◆ Community Development, Building & Safety division

- ◆ City Attorney
- ◆ Finance
- ◆ Police
- ◆ Fire

Comparison Survey

One additional tool that many agencies use when considering how to establish fees for services is a comparison of what other agencies are charging for similar services. As part of this study, MGT collected fee schedules from surrounding area jurisdictions and compared their Commercial Cannabis ongoing fees with those proposed to be charged by the city. The results of the comparative survey may be found in Appendix B.

Cost of Service Analysis

The proposed fees reflect the services, activities and efforts associated with managing and monitoring commercial cannabis businesses on an ongoing basis. The proposed fees are as follows:

- ◆ Annual Renewal
- ◆ Change in Location
- ◆ Transfer of Cannabis Business Permit
- ◆ Modification of Site/Premises
- ◆ Ownership Change (less than majority ownership)
- ◆ Employee Background Check Review
- ◆ Out-of-Town Cannabis Delivery

The departments are recommending the fees be set at 100% cost recovery. See Appendix B for details.

Recommendations Going Forward

Since the City's commercial cannabis permit program is new, staff has not been able to perform time studies, nor is there any historical data to draw from. For this reason, MGT recommends that the City re-analyze the fees in approximately three years' time. Once the commitment is made to understand the full cost of providing services, it is important to review and update the analysis in order to keep pace with changes in service delivery, staffing changes, and demand levels.

Most of our agencies ask us at the conclusion of the study: how often should this type of study be undertaken? Our advice is to conduct this detailed analysis at least every three but not more than five years, with minor adjustments in the non-study years to keep pace with economic impacts. MGT recommends the City apply an inflation adjustment to fees annually, based on the most recent CPI from All Urban Consumers for the Los Angeles area to keep pace with inflation. The industry best practice is to apply this index once per year as part of the City's annual budget process. This is particularly helpful once an agency has chosen to adopt a cost recovery policy – whether 100% of cost or something less – in order to keep fees at the desired level.

Appendix A – User Fee Results

Agency: **City of Riverside**
 Department **Commercial Cannabis Phase 2 Fees**
 Fiscal Year **FY 2024-2025**

Ord	Service Name	Fee Description	Current			Recommendations	
			Current Fee	Full Cost	Current Recovery %	Recovery Level	Per Unit
1	Annual Renewal	New Flat Fee	\$ -	\$ 3,719	0%	100%	\$ 3,719
2	Change in Location (Ord. 7628, §5.77.260)	New Flat Fee	\$ -	\$ 1,814	0%	100%	\$ 1,814
3	Transfer of Cannabis Business Permit (Ord. 7628, §5.77.270)	New Flat Fee	\$ -	\$ 4,089	0%	100%	\$ 4,089
4	Modification of Site/Premises	New Flat Fee	\$ -	\$ 1,668	0%	100%	\$ 1,668
5	Ownership Change (less than majority ownership)	New Flat Fee	\$ -	\$ 991	0%	100%	\$ 991
6	Employee Background Check Review (per person)	New Flat Fee	\$ -	\$ 1,342	0%	100%	\$ 1,342
7	Out-of-Town Cannabis Delivery Fee	New Flat Fee	\$ -	\$ 1,043	0%	100%	\$ 1,043

Footnotes

1 Currently, RPD has a Background Investigation Fee (3108), which is set by Penal Code 11123 and cannot exceed \$25. That Penal Code does not apply to this fee.

Appendix B – Peer Comparisons

Activity	Riverside Proposed Fee	City of Los Angeles	Corona	San Bernardino	Pasadena	Santa Ana
Annual Permit Renewal	\$3,719	\$8,486	\$2,180	Annual Regulatory fee: \$15,016 Renewal (every 3 years): \$2,647	\$10,639	Registration fee: \$2,069 Regulatory Safety Fee: \$14,802
Change in Location	\$1,814	\$3,554	\$3,720	\$5,918	\$2,037	Registration fee: \$2,069 Regulatory Safety Fee: \$14,802
Transfer of Cannabis Business Permit	\$4,089	Requires new license.	Requires new license.	\$5,918	No fee listed.	Registration fee: \$2,069 Regulatory Safety Fee: \$14,802
Modification of Site/Premises	\$1,668	Modification Request Form Review \$542 Business Diagram Modification \$3,368	\$1,834	\$5,918	\$3,975	Regulatory Safety Fee: \$14,802
Ownership Change (less than majority ownership)	\$991	\$2,335	\$1,974	\$5,918	No fee listed.	No fee listed.
Employee Background Check Review	\$1,342	\$450	\$128 plus DOJ fee	\$600 per owner \$132 per owner	No fee listed.	No fee listed.
Out-of-Town Cannabis Delivery	\$1,043	No fee.	No fee.	No fee listed.	No fee listed.	Not allowed.