

Testing Laboratory Commercial Cannabis Business Permit Fee Study

City of Riverside, CA

Prepared by Community and Economic Development

June 5, 2025

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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.

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 this fee study was limited to testing laboratory 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 XIII C, 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 – staff conducted a series of meetings with the subject matter experts of the commercial cannabis program, including representatives from Economic Development, Planning, and Finance. Time estimate data was then collected 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 the service related to testing lab operations and regulation for which a fee will be collected. 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.
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.). The productive hourly rate for each classification was calculated based on the salary and benefit information provided by Human Resources. 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 direct 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 City Manager's Office, General Services, City Attorney, Human Resources, 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 for salaries, expenditures and cost allocation charges.

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 testing laboratories are shown below:

- Community Development, Economic Development Division
- Community Development, Planning Division
- Community Development, Building & Safety Division
- City Attorney Office
- Finance Department
- Police Department
- Fire Department

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, Staff 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 permitting, managing, and monitoring cannabis testing laboratory businesses on an ongoing basis.

The proposed fees are as follows:

- Testing Laboratory Application Fee

The departments are recommending the fees be set at 100% cost recovery. See Appendix A 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, it is recommended 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 staffing costs, service delivery, staffing changes, and demand levels.

Appendix A – User Fee Results

Agency: **City of Riverside**

Department: **Commercial Cannabis Testing Lab Application Fee**

Fiscal Year: **FY 2024-2025**

			Current			Recommendations	
			Per Unit			Per Unit	
Ord	Service Name	Fee Description	Current Fee	Full Cost	Current Recovery %	Recovery Level	Fee @ Policy Level
1	Testing Laboratory Application Fee	New Flat Fee	\$ -	\$ 7,511	0%	100%	\$ 7,511

Appendix B – Other City Comparisons

Testing Laboratory Commercial Cannabis Business Permit Application Fee: <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
Fee Type	Flat Fee	NA	Flat Fee	Deposit	Flat Fee	Flat Fee	Flat Fee	Flat Fee	Flat Fee	Flat Fee	Annual Fee