



**CITY OF SALINAS  
COUNCIL STAFF REPORT**

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**DATE:** FEBRUARY 19, 2019

**DEPARTMENT:** COMMUNITY DEVELOPMENT

**FROM:** MEGAN HUNTER, DIRECTOR

**THROUGH:** COURTNEY GROSSMAN, PLANNING MANAGER

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**TITLE:** COMMERCIAL CANNABIS INDUSTRY IN SALINAS

RECOMMENDATION:

There is no recommendation associated with this report. This report presents information and does not require action of the City Council.

EXECUTIVE SUMMARY:

Pursuant to Salinas Municipal Code Sec. 5-07.49, City staff shall prepare reports to the City Council providing findings regarding the operations of cannabis businesses within the City. The reports shall include information regarding employment, community benefits, tax revenue, crime, building/zoning compliance, and any other information requested by the Council. The first of these reports was presented on May 15, 2018. This is the first subsequent annual report, to be prepared in February of each year unless the Council designates an alternative schedule.

Legal commercial cannabis represents a new industry within the City of Salinas. While it is growing, the industry has also been subjected to a combination of a strict regulatory environment coupled with rapidly changing market conditions. New businesses are opening, employees are being hired, and taxes are being paid, but not at the rates of growth that were initially projected back in 2016. For many of the businesses that were awarded commercial cannabis permits, multiple time extensions have been required due to delays in commencement of business operations. Further challenges remain, which may or may not require intervention on behalf of the City.

BACKGROUND/ANALYSIS:

A number of items have come before the Council in recent years regarding the legalization of cannabis and businesses serving that industry. The Table below provides a brief summary of significant state and local milestones in the development of this industry.

Date	Event
<b>January 2016</b>	City of Salinas adopts ordinance regulating cannabis businesses. A maximum of 12 businesses (3 each of Dispensary, Manufacturing, Cultivation, and Delivery) are allowed.
<b>June – July 2016</b>	City of Salinas accepts applications for Commercial Cannabis Permits. 24 applications are received.
<b>August 2016</b>	California passes Medical Cannabis Regulation and Safety Act (MCRSA)
<b>November 2016</b>	Proposition 64 passes, legalizes adult-use cannabis effective January 1, 2018
<b>November 2016</b>	Salinas Measure L passes, establishing a commercial cannabis business tax on specified businesses (Cultivation, Delivery, Dispensary, and Manufacturing)
<b>May 2017</b>	City of Salinas completes initial review of Commercial Cannabis Permits. Nine Permits are recommended for approval (3 each of Cultivation, Dispensary, and Manufacturing). Fourteen applications are not approved.
<b>June 2017</b>	California passes Medicinal and Adult-Use Regulation and Safety Act (MAUCRSA) implementing Proposition 64.
<b>August 2017</b>	City adopts revisions to commercial cannabis ordinance. Distribution and Testing Laboratories are added as allowable businesses. Number of Permits increased from 12 to 23 (5 each for Cultivation, Dispensary, Distribution, and Manufacturing; 3 for Delivery). No maximum number of Testing Laboratories and Small Distribution.
<b>October 2017</b>	City accepts revised permit applications from commercial cannabis businesses that were not approved in the previous permitting round. 13 permit reapplications are received.
<b>November 2017</b>	City adopts revisions to commercial cannabis ordinance allowing businesses to participate in the adult-use market. Other changes made to streamline processes and align local laws with MAUCRSA.
<b>November 2017</b>	California releases regulations implementing MAUCRSA.
<b>December 2017</b>	City issues 11 additional permits, bringing the total number of permits issued by the City to 20.
<b>January 2018</b>	Proposition 64 takes effect – adult-use cannabis is legal. California begins issuing temporary licenses to businesses.
<b>May 2018</b>	City adopts Ordinance modifying processes for Nurseries and R&D businesses and lowering tax for Nursery-type Cultivation from \$15 to \$2 per square foot.
<b>December 2018</b>	City transfers management of commercial cannabis business permitting from the Administration Department to the Community Development Department.

This Report is intended to provide a snapshot of the industry as it currently exists. However, it is very difficult to determine any trends from the statistics available at this time. The industry has been in a perpetual state of disruption since the passage of Proposition 64 in November 2016. Local jurisdictions, such as Salinas, have passed their own rules and regulations governing the industry, without the benefit of established best practices to draw on. Prospective business owners are forced to navigate complicated regulations at both the local and state levels, while local government staffs adapt to a new element of local planning and permitting. In short, this industry is currently in high state of upheaval, and staff cautions against interpreting the data included in this Report as indicative any long-term industry trends.

## City Jurisdiction of Commercial Cannabis Business Permitting

In December of 2018, responsibility over commercial cannabis business permitting was transferred from the Administration Department under the leadership of the Economic Development Manager to the Community Development Department. This decision was made because of the close association of the Community Development Department and the industry. Commercial cannabis businesses utilize the services of the Community Development Department on frequent occasion, including the Permit Services Division (building permits and inspections) and the Current Planning Division (compliance with the operating restrictions). The move of this program to the Community Development Department was intended to create efficiencies in the process for both the City and for the businesses.

To assist them in their efforts, the Community Development Department has contracted with Rincon Consultants, Inc. to provide assistance on all cannabis-related permitting tasks. Rincon provides services in permit processing throughout the state and has extensive experience with cannabis regulations, having provided cannabis permitting assistance for various local governments, including the County of San Luis Obispo and the City of West Hollywood. Since December, 2018, Rincon staff has spent one day per week on-site with Salinas planning staff, serving as the primary point of contact for current and prospective commercial cannabis permit-holders.

## Commercial Cannabis Business Permitting

The City issues two types of commercial cannabis business permits: Commercial Cannabis Permits (CCP) and Administrative Permits (AP). Commercial Cannabis Permits are applicable to most businesses, including Cultivation, Delivery, Dispensary, Distribution, and Manufacturing. Administrative Permits are issued to Testing Laboratories, Small Distributors (under 500 square feet), Research and Development Facilities, and Nurseries.

The State of California has identified 20 different subtypes of cannabis businesses, organized by license type. Each commercial cannabis business type, as defined by the City, corresponds to a specified State license. The following chart lists the commercial cannabis business types recognized by Salinas, along with the corresponding state license and a description of the function served by each business type.

Salinas Business Type	Corresponding State License	Role
<b>Cultivation (CCP)</b>	Cultivation (Types 1-5; 14 different subtypes in total)	Growing of cannabis plants for sale to Manufacturing, Delivery, or Dispensary businesses
<b>Manufacturing (CCP)</b>	Manufacturer (Type 6-7)	Processing of cannabis into cannabis product
<b>Distribution (CCP)</b>	Distribution (Type 11)	Transports cannabis and cannabis product between licensees. Also collects and remits State taxes from other businesses.
<b>Dispensary (CCP)</b>	Retailer (Type 10)	Sells cannabis and/or cannabis products via

Salinas Business Type	Corresponding State License	Role
		a fixed location storefront.
<b>Delivery (CCP)</b>	Retailer (Type 10)	Sells cannabis and/or cannabis products without a fixed location storefront.
<b>Testing Laboratory (AP)</b>	Testing Laboratory (Type 8)	Tests to ensure product safety.
<b>Nursery (AP)</b>	Nursery (Type 4)	Grows immature plants from cuttings and seeds for internal use or sale to other Cultivation, Delivery, or Dispensary companies
<b>Research and Development (AP)</b>	Case-by-case basis, most likely Testing Laboratory (Type 8)	Conducts research on cannabis and/or cannabis products, but does not sell cannabis products. This type excludes testing facilities.
<b>Small Distribution (AP)</b>	Distribution (Type 11)	Transports cannabis and cannabis product between licensees. Also collects and remits State taxes from other businesses.

### Commercial Cannabis Permits

The City of Salinas has issued a total of 20 Commercial Cannabis Permits. To obtain a CCP, applicants completed an extensive, competitive application process. A limited number of CCPs were available for each business category. Applications were reviewed by the Cannabis Selection Committee, which is made up of staff across different City departments. The City is not currently accepting new CCP applications.

The table below shows the number of CCPs that were made available to applicants, and the number that was awarded for each category.

Business Type	Operational Businesses	Total Permits Awarded	Permit Quota
<b>Cultivation</b>	0	4	5
<b>Delivery</b>	3	3	3
<b>Dispensary</b>	2	5	5
<b>Distribution</b>	2	3	5
<b>Manufacturing</b>	1	5	5
<b>Total</b>	8	20	23

Each CCP stipulates that a business must begin commercial cannabis business operations within one year of the date in which the permit is granted. Applicants who do not meet this deadline are able to apply for a permit amendment to grant a single 90-day extension. Subsequently, a permit can be amended for a second time only by Cannabis Selection Committee vote. Both amendments require demonstration that the business is making progress towards operational status.

The table below shows the 20 businesses that have been awarded a CCP.

<b>Business Name</b>	<b>Address</b>	<b>Type</b>
<b>Compassionate Bay Delivery</b>	1051 Terven Avenue	Delivery
<b>Cypress Manufacturing</b>	20 Quail Run Circle	Manufacturing
<b>Cypress Manufacturing</b>	1353 Dayton Street*	Distribution
<b>Emerald Skyway, LLC</b>	1610 Moffett Street	Dispensary
<b>710 Combinator</b>	518 Work Street	Manufacturing
<b>East of Eden</b>	514 Work Street	Dispensary
<b>Flor X</b>	516 Work Street	Distribution
<b>Golden Essentials Delivery</b>	1020 Merrill Street	Delivery
<b>Purple Trilogy</b>	1020 Merrill Street	Delivery
<b>Badfish Gardens</b>	590 Work Street	Cultivation
<b>Canna Cruz</b>	1156 Abbott Street	Dispensary
<b>Cypress Manufacturing</b>	680 Work Street	Cultivation
<b>Cypress Manufacturing</b>	680 Work Street	Dispensary
<b>Emerald Skyway</b>	1610 Moffett Street	Cultivation
<b>Emerald Skyway</b>	1610 Moffett Street	Manufacturing
<b>Flor Cultivation</b>	1156 Harkins Road	Cultivation
<b>Griffin Holistics</b>	1072 Industrial Street	Dispensary
<b>Griffin Holistics</b>	1072 Industrial Street	Manufacturing
<b>Riverview Farms</b>	323 Rianda Street	Distribution
<b>Riverview Farms</b>	323 Rianda Street	Manufacturing

\*This business was originally established at 20 Quail Run Circle, but has been approved to relocate to 1353 Dayton Street

When staff first reported to City Council on Commercial Cannabis Activity on May 15, 2018, four businesses had obtained a Certificate of Occupancy, five had applied for a building or administrative permit but had not yet obtained final approval, and eleven had not yet applied for a permit. The updated status of the twenty businesses with a CCP is shown below.

<b>Business Name</b>	<b>Business Status</b>	<b>Type</b>
<b>Compassionate Bay Delivery</b>	Operational	Delivery
<b>Golden Essentials Delivery</b>	Operational	Delivery
<b>Purple Trilogy</b>	Operational	Delivery
<b>Flor X</b>	Operational	Distribution
<b>Cypress Manufacturing</b>	Operational	Distribution
<b>Emerald Skyway, LLC</b>	Operational	Dispensary
<b>East of Eden</b>	Operational	Dispensary
<b>Cypress Manufacturing</b>	Operational	Manufacturing
<b>710 Combinator</b>	Building complete, inspections pending	Manufacturing
<b>Emerald Skyway</b>	Second amendment granted to extend deadline	Manufacturing
<b>Emerald Skyway</b>	Second amendment granted to extend	Cultivation

	deadline	
<b>Canna Cruz</b>	Second amendment granted to extend deadline	
<b>Griffin Holistics</b>	90 day extension granted; applicant is seeking second amendment to extend deadline	Manufacturing
<b>Griffin Holistics</b>	90 day extension granted; applicant is seeking second amendment to extend deadline	Dispensary
<b>Flor Cultivation</b>	Building permit application submitted	Cultivation
<b>Cypress Manufacturing</b>	Expired	Cultivation
<b>Cypress Manufacturing</b>	Expired	Dispensary
<b>Riverview Farms</b>	Expired	Manufacturing
<b>Riverview Farms</b>	Expired	Distribution
<b>Badfish Gardens</b>	Expired	Cultivation

Eight businesses are now operational, and seven businesses have made substantial progress towards beginning operations. Five permits are currently considered to be expired. However, because the transition from the Administration Department to the Community Development Department occurred while these permits neared their expiration dates, all expired permits are currently being reviewed by staff to ensure that all documentation is up-to-date and accurate. Of the total quota of 23, only 8 businesses are currently operational. Available permits in the next review round for new cannabis businesses should consist of the three permits that were not originally awarded, as well as all permits that have expired.

The review process for awarding CCPs was extensive and lengthy. After the Community Development Department has completed review of expiring permits and has established proficiency with the various aspects of commercial cannabis permitting, a new round of permitting will occur. City staff and the Cannabis Selection Committee have now completed previous review rounds for CCPs, and have gained insight from seeing which businesses succeeded in becoming operational while others failed to do so. Based on this experience, the next review round can be expected to be quicker, more efficient, and more likely to identify businesses with a high chance of success. For example, while all three permits awarded in the delivery business category are operational, none of the four permits awarded in the cultivation category are operational. The challenges and trends observed in the past two years can inform future review rounds. Practices used in earlier review rounds should be evaluated by the Current Planning Division, Economic Development Manager, and the Cannabis Selection Committee before accepting new CCP applications. At this time, staff estimates that a new review round would be initiated in June, 2019.

The following table shows the number of businesses by business type, and the number of businesses that have begun commercial cannabis operations.

## Administrative Permits

Unlike CCPs, there are no limits on how many administrative permits can be issued for commercial cannabis businesses. Administrative permits can be applied for at any time, and do not require review by the Cannabis Selection Committee. The process for obtaining an administrative permit is considerably simpler and cheaper for applicants. However, applicants for administrative permits must also obtain a state license and comply with state regulations. The table below shows the administrative permits that have been awarded.

Business Name	Address	Type
<b>American Biotech Testing</b>	607 Brunken Avenue	Testing
<b>Coastal Analytics, Inc</b>	1514 Moffett Street, Suites C and E	Testing
<b>OPM Holdings, LLC</b>	743 Sanborn Place, #6	Small Distribution
<b>Ambrosia Nurseries, LLC</b>	825 West Market Street, Unit C	Nursery
<b>Ambrosia Nurseries, LLC</b>	825 West Market Street, Unit C	Small Distribution
<b>ProForma Labs</b>	1514 Moffett Street, Suites C and E	Testing
<b>Greenbelt Labs, LLC</b>	421 Monterey Street	Testing

\*Coastal Analytics chose not to pursue business operations

Currently, none of the businesses with administrative permits have begun business operations. Due to the low barriers of entry, it may be found that applicants are likely to initiate the permitting process without necessarily having the means to carry their business all the way to the operational phase. However, several of the businesses listed above have already initiated the building permit process and have begun submitting quarterly reports on their progress. Staff will continue to monitor the progress of administrative permit-holders to determine if the current practices are appropriate.

## Impacts on City Resources

In September 2017, the Council adopted ongoing monitoring fees to compensate the City for the ongoing costs relating to monitoring of commercial cannabis businesses and the enforcement of regulations. These fees are intended to cover services for which fees are not typically charged, and that would go beyond the services typically rendered to businesses. Monitoring fees are first charged prior to issuance of a certificate of occupancy and are subsequently charged annually as part of the permit renewal process. Monitoring fees for 2018 were collected for the City's Police Department, Legal Department, and Administration Department, as shown below.

Monitoring Department	Annual Monitoring Fees (2018)
<b>Police</b>	\$7,961.50
<b>City Attorney</b>	\$2,119.75
<b>Administration</b>	\$695.50

Monitoring fees from 2018 are currently being reviewed to ensure accuracy of data and to evaluate procedural efficiency. Total monitoring fees collected in 2018 are estimated at \$75,432.84, designated proportionally as shown in the table above. It is anticipated that the fees

will need to be adjusted in order to fully cover the City’s costs associated with implementation of this program.

Even without new CCPs available to applicants, the Permit Center continues to see significant staff-time demands related to cannabis activity. This consists of reviewing amendments to existing permits, permit review for administrative permits, reviewing building permits, and fielding questions from prospective applicants. Code Enforcement is currently addressing one business with an administrative permit that performed work under an expired building permit. Fire Prevention has also been additionally tasked due to use of potentially hazardous materials in manufacturing processes. Generally, more inter-agency coordination is required for cannabis than for other industries, particularly in terms of fees and taxes, as described below in the Cannabis Industry Challenges section of this report.

Employment/Community Impacts

While applicants are required to identify employment projections when applying for a permit, City staff does not currently have an inventory of industry-wide employment. As most businesses have either not begun operations or only recently began operations in the past year, it is too soon to expect employment tallies to represent trends. Staff anticipates that a more comprehensive summary of employment numbers, as well as summaries of any charitable contributions or other types of community benefits, will be provided in the next iteration of this report.

Tax Revenue Collected

Measure L, adopted by the voters of Salinas in November 2016, requires certain commercial cannabis businesses to pay a commercial cannabis business tax every quarter, beginning January 1, 2017. Business are responsible for paying this tax regardless of their permit status. The following Table provides the rates that are currently due for each business type, as well as the rate that would be applicable starting in 2020:

Business Type	Current Rate	2020 Rate
<b>Cultivation</b>	\$15 per square foot	\$25 per square foot
<b>Delivery</b>	5% of Gross Receipts	10% of Gross Receipts
<b>Dispensary</b>	5% of Gross Receipts	10% of Gross Receipts
<b>Distribution</b>	N/A	N/A
<b>Manufacturing</b>	5% of Gross Receipts	10% of Gross Receipts
<b>Nurseries*</b>	\$2 per square foot	\$5 per square foot
<b>Testing Laboratory</b>	N/A	N/A

\*Although Nurseries are a type of Cultivation, they are taxed at a different rate

The City has received cannabis revenues as detailed in the Table below. The Community Development Department is coordinating with the Finance Department and the Economic Development Manager to ensure that the taxes have been calculated and paid correctly. The City may also wish to explore ways to increase the collection of taxes from unpermitted or out-of-town businesses making deliveries in Salinas.



Business Name	Business Type	2017 Total	2018 Total
<b>Compassionate Bay Delivery</b>	Delivery	\$14,955	\$43,067.63
<b>Cypress Manufacturing</b>	Manufacturing	\$335,379.95	\$482,056.41
<b>Emerald Skyway, LLC</b>	Dispensary	-	\$195,492.92
<b>East of Eden</b>	Dispensary	-	\$58,508.00
<b>Golden Essentials Delivery*</b>	Delivery	\$24,034.00	\$17,548.48
<b>Purple Trilogy**</b>	Delivery	-	\$6,014.21
<b>Cypress Manufacturing</b>	Distribution	-	-
<b>Flor X</b>	Distribution	-	-
<b>Total:</b>		<b>\$374,368.95</b>	<b>\$802,687.65</b>

\*Golden Essentials owes Q4 payment and part of Q3 payment as of the date of this report

\*\*Purple Trilogy owes Q4 payment as of the date of this report

Tax revenue more than doubled from 2017 to 2018. Tax revenue is expected to increase again in 2019 as some businesses enter their first full year of operation, and others begin operations during the year. Changes in tax rates planned for the year 2020, as shown above, will further increase revenue in the future.

### Cannabis Industry Challenges

The following discussion is based on the experiences of City staff that have worked on commercial cannabis business permitting, including input from consulting staff, interagency coordination, and discussions with applicants. Staff has identified several challenges that the City will examine to determine whether intervention of some type is necessary. These range from market conditions, costs of operation, and competition from illegal businesses. Please note that this analysis is largely anecdotal, and has not been independently verified.

The primary concerns for both business applicants and City staff relate to cost. For applicants, on top of the fees and taxes associated with running any business, cannabis businesses bear additional costs at both the local and state level. Expenses unique to the cannabis industry include local taxes, monitoring fees, and a state excise tax of 15 percent. Furthermore, the illegal market for cannabis was well-established prior to legalization. Because illegal cannabis activities cheat the costs associated with the legal market, it is likely that illegal vendors continue to out-compete legal vendors for a portion of the market share.

For City staff, cost issues concern ensuring that fees are structured so as to adequately cover expenses. The monitoring fees designated “administrative” were previously allocated for the Administration Department, but will now be allocated for the Community Development Department. Monitoring fees collected in 2018 will need to be reviewed so that amounts were allocated appropriately in accordance with the date of the departmental transition. Permitting fees are currently being reviewed. While most fee amounts appear to be sufficient, the Administrative Permit fee will need to be raised. This fee is currently \$106, which does not cover the cost of staff time required for the permit review process.

Another concern that has been raised by businesses is the lost revenue due to operating-hours restrictions. However, the municipal code was amended on January 8, 2019, to extend the hours for cannabis sales to 10:00 p.m. and to allow sales on Sundays. This change should increase the profitability of cannabis businesses, and possibly reduce competition from illegal vendors.

CEQA CONSIDERATION:

This Report is informational only and does not constitute a “project” under CEQA.

DEPARTMENT COORDINATION:

The Community Development Department coordinates with the Economic Development Manager, the City Attorney’s Office, and the Police Department on matters related to cannabis business in Salinas.

STRATEGIC PLAN INITIATIVE:

The Commercial Cannabis Industry is not mentioned in the City Council’s Strategic Plan. While this report does not specifically relate to one of the Council’s Strategic Plan goals or strategies, the content is pertinent to Goal 1: Economic Diversity and Prosperity; Goal 2: Safe, Livable Community; and Goal 3: Effective, Sustainable Government.

FISCAL AND SUSTAINABILITY IMPACT:

This Report includes discussion of tax revenue, but is not an independently verified financial reporting document, and should be used for informational purposes only.