

Commercial Cannabis Industry 2022 Annual Update



Courtney Grossman, Planning Manager
Community Development Department
August 22, 2023

Salinas Cannabis Industry

- An annual update to City Council on the cannabis industry is required by SMC Sec. 5-07.49
- The City issues two types of commercial cannabis business permits: Commercial Cannabis Permits (CCP) and Administrative Permits (AP)
 - CCPs are applicable to Cultivation, Delivery, Dispensary, Distribution, and Manufacturing
 - APs are applicable to Testing Laboratories, Small Distribution (business premises under 500 square feet), Research and Development Facilities, and Nurseries

Commercial Cannabis Permit Status

- The City has issued 19 permits out of a total of 23:
 - At permit quota for dispensary, distribution, and manufacturing
 - 9 businesses are operational and have received a certificate of occupancy
 - 11 businesses are not operational – only 5 have shown recent activity

Business Type	Permit Quota	Active Permits*	Operational Businesses*
Cultivation	5	3	1
Delivery	3	1	1
Dispensary	5	5	3
Distribution	5	5	2
Manufacturing	5	5	2
Total	23	19	9
*As of July 2023.			

Fiscal Impact of Cannabis

- The City collects monitoring fees to compensate for costs relating to monitoring and enforcement of commercial cannabis businesses
- Approximately \$169,824 in monitoring fees were collected in 2022
 - Over \$13,000 in permit application and renewal fees to cover application processing expenses was collected.

Monitoring Department	2022 Total
Police	\$78,216
Community Development Department	\$20,826
City Attorney's Office	\$6,831
Financial Consultant	\$63,951 (estimate)
Total:	\$169,824

Employment & Community Impacts

- In 2020 there were three crimes tied to cannabis operations in Salinas
 - Conducting business and transporting product without a license
 - Embezzlement
 - Robbery
- In 2021, no crimes identified, no data for 2022
- In 2020 approximately 393 people were directly employed by cannabis businesses
- In 2021, approximately 323 people were employed, no data for 2022

Tax Revenue

- Cannabis Business Tax effective January 1, 2017
 - In December 2019, Council voted to forgo a scheduled tax increase under SMC Sec. 19A.10.070
 - Tax applies to Cultivation (including Nurseries), Manufacturing, Dispensary, and Delivery
 - Manufacturing and Cultivations rates reduced 50% in Q4 2022

Business Type	Current Rate
Cultivation	\$7 per square foot (was \$15)
Delivery	5% of Gross Receipts
Dispensary	5% of Gross Receipts
Distribution	N/A
Manufacturing	2.5% of Gross Receipts (was 5%)
Nurseries	\$2 per square foot
Testing Laboratory	N/A

Tax Revenue

- Taxes for 2020, excluding some 4th quarter numbers, were over \$1.8M
 - Tax revenue increased by 12 percent from 2019 to 2020
 - Tax revenue in 2021 exceeded \$2M, but declined to \$1.5M in 2022

Year	Q1	Q2	Q3	Q4
2018	\$120,736	\$143,838	\$328,894	\$276,979
2019	\$343,833	\$432,000	\$409,701	\$442,778
2020	\$470,916	\$503,765	\$357,502	\$509,849
2021	\$536,363	\$525,501	\$514,153	\$457,919
2022	\$455,822	\$381,604	\$383,861	\$298,658

Q = quarter (three month period)

Industry Challenges

- Economic challenges and inflation during the previous year
- Reductions in the price per pound of cannabis due to the growing of more product than there are storefronts to sell
- Regulatory burdens from State and local levels
- Businesses with CCPs in Salinas not becoming operational
- Competition with the illegal market, an issue directly reported from CCP holders
- Reductions in tax rates in Quarter 4 2022

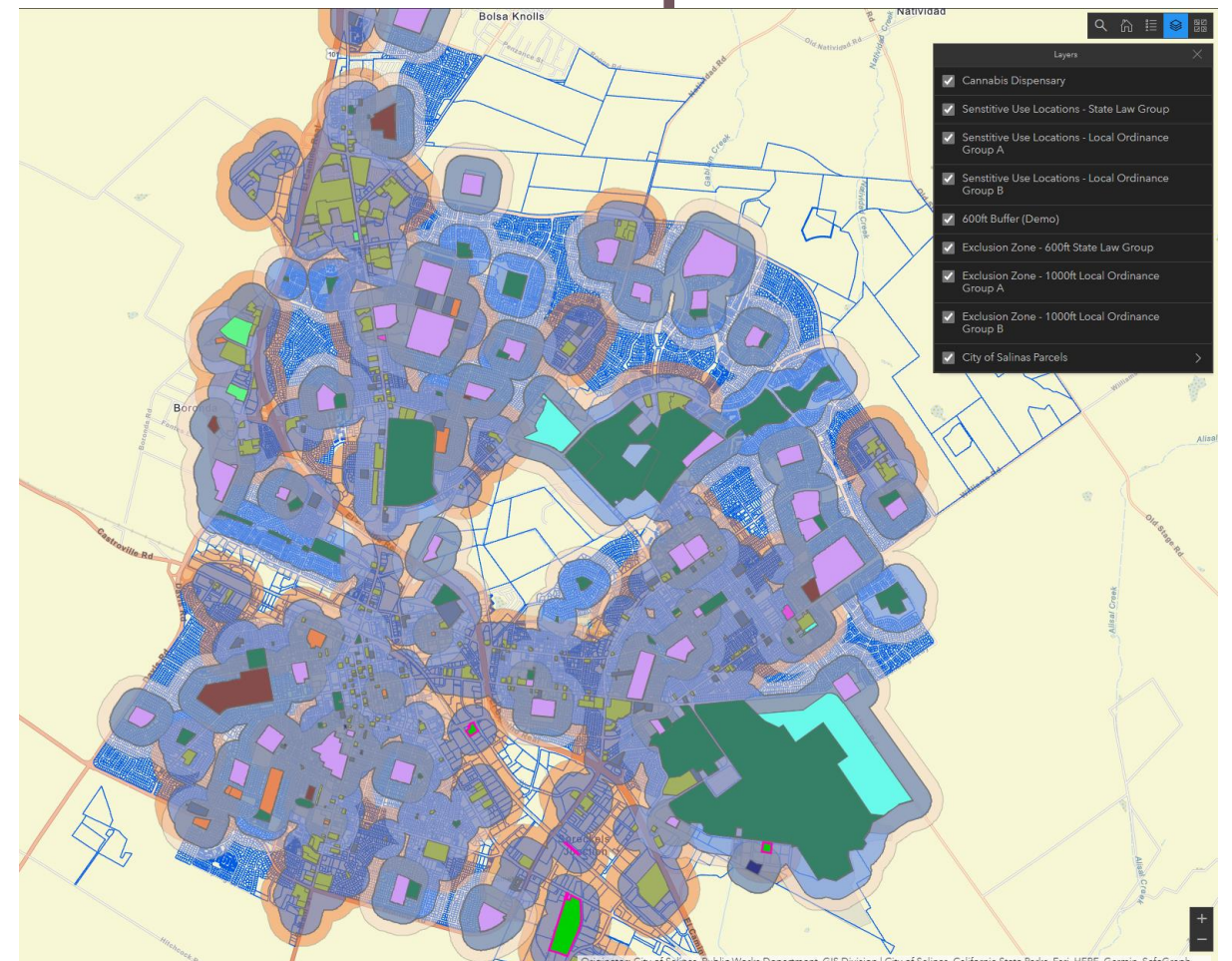
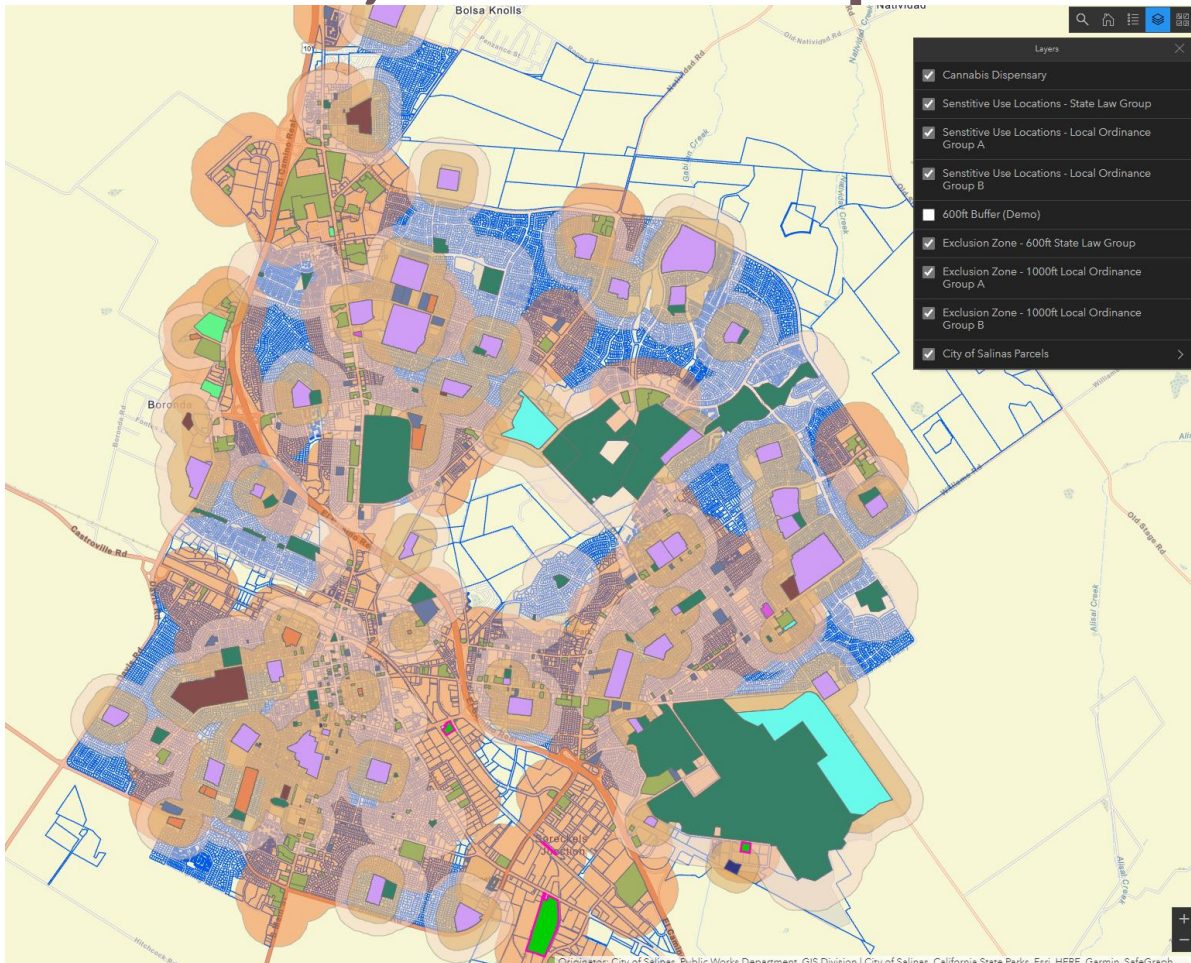
City Regulatory Challenges

- Potential Municipal Code Updates:
 - Establish time extensions and limit indefinite extensions, consistent with planning entitlement requirements
 - Address Inactive Permits / create opportunities for new permits
 - Address cannabis uses in the Zoning Code
 - Reconsider sensitive use restrictions to allow for more flexible siting – GIS
 - Reconsider CCP application process
 - Establish a single date for permit renewals

Proximity to Sensitive Uses:

1,000' Map

600' Map



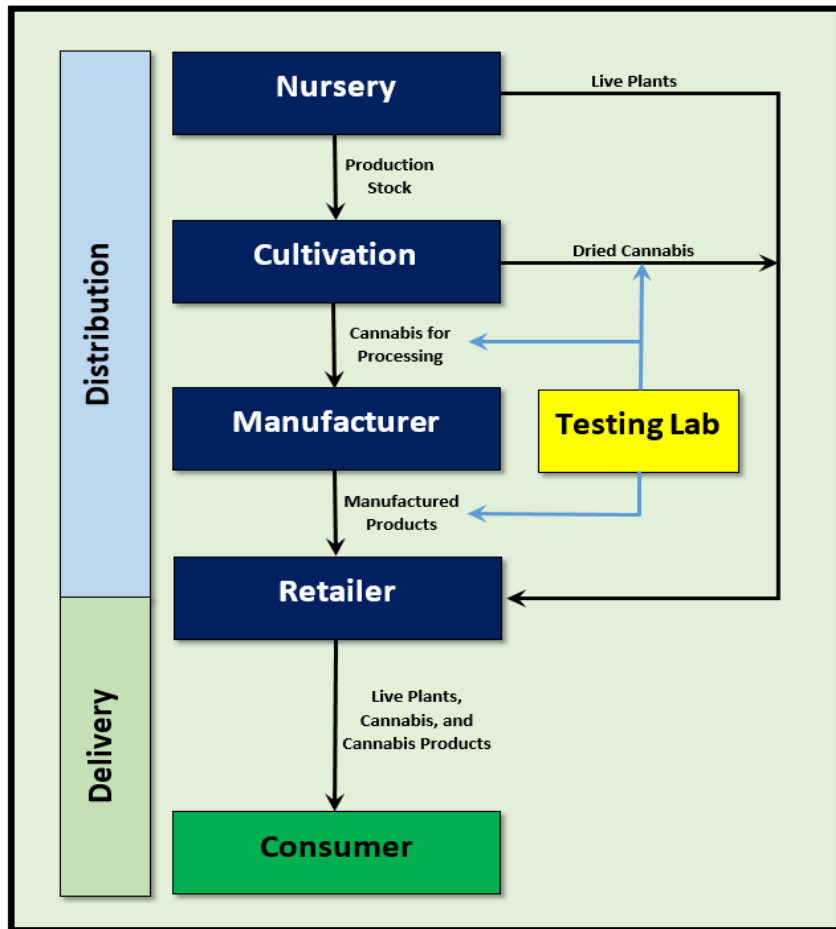
Conclusion

- The Salinas cannabis industry has demonstrated stabilization with some of the main permit holders
- Challenges for other permit holders to become operational
- Requires substantial staff resource and consultants
- The City is covering most of its costs with monitoring and permit fees
- Updates to the Municipal Code and permitting process could improve transparency, consistency, and create a more streamlined process



End of Presentation

The Cannabis Industry

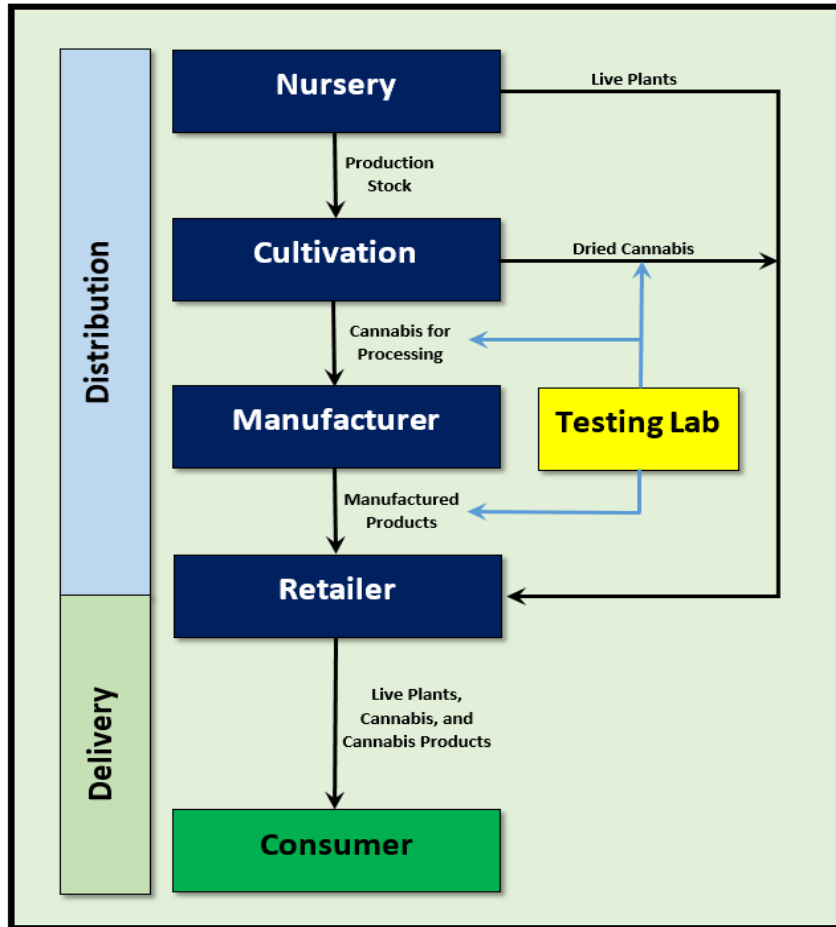


Nursery

- Grows/Clones Immature Plants
- Sells to Retailer and Cultivation
- Statewide Market
- Taxed at \$2/square foot
- Administrative Permit
- No Maximum
- None Approved
- None Operating



The Cannabis Industry

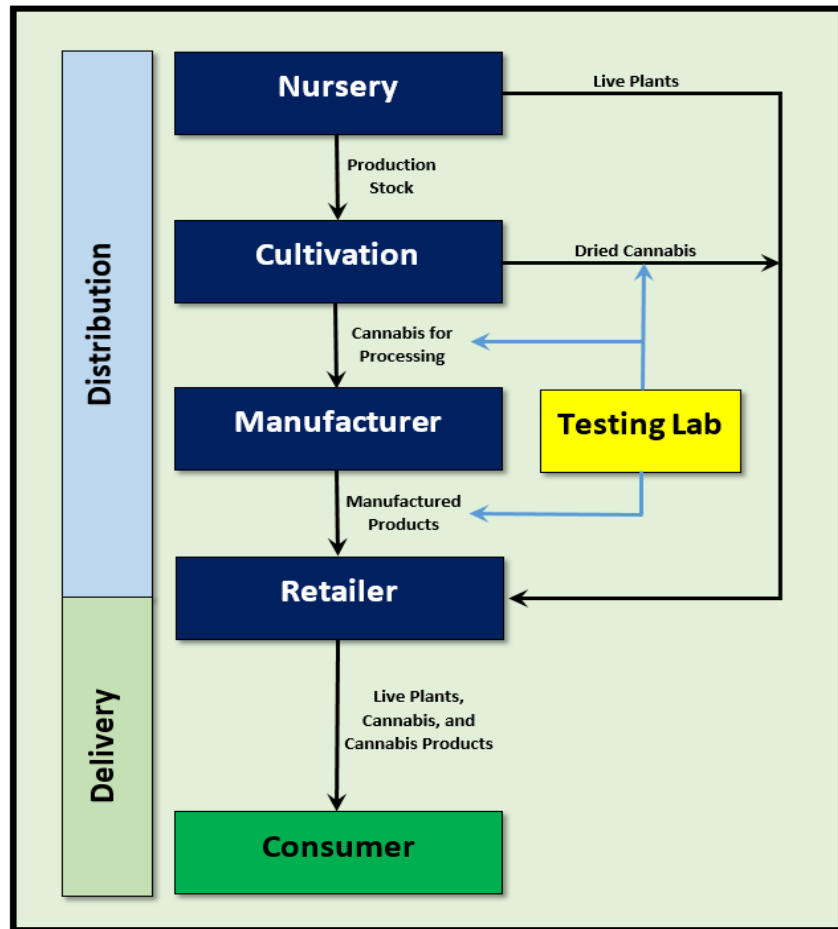


Cultivation

- Grows/Harvests Mature Plants
- Sells to Retailer and Manufacturer
- Statewide Market
- Taxed at \$15/square foot
- CC Permit
- Five Maximum
- Three Approved
- One Operating



The Cannabis Industry

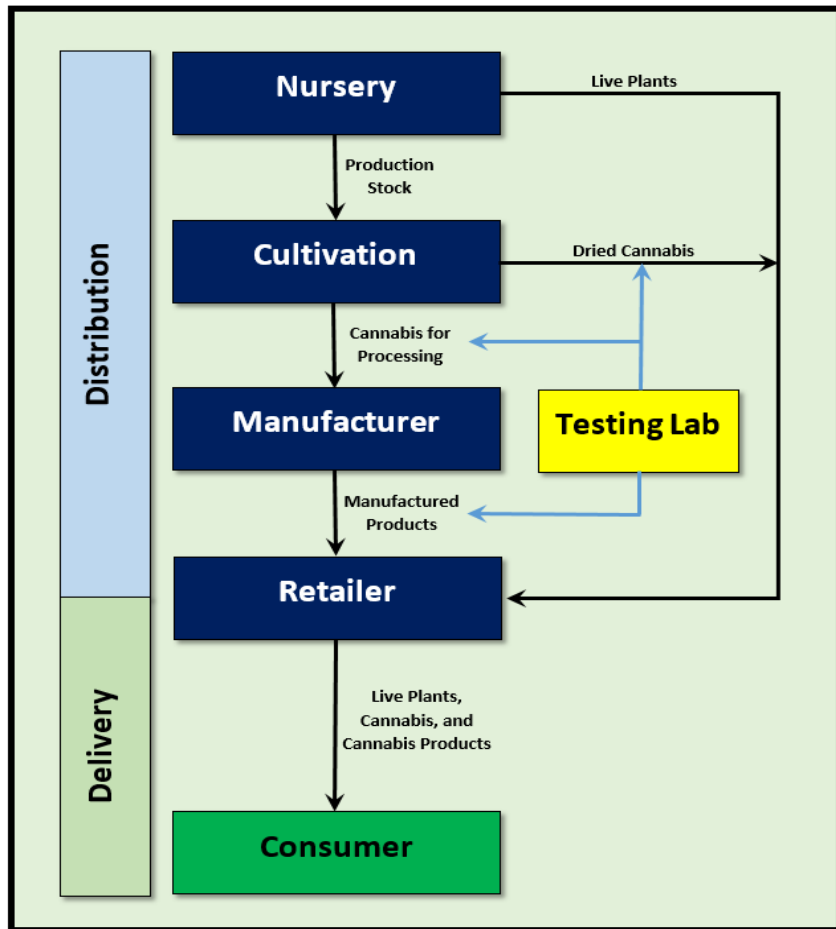


Manufacturer

- Oil Extraction/Infusion, Product Manufacture
- Sells to Retailer
- Statewide Market
- Taxed at 5% GR
- CC Permit
- Five Maximum
- Four Approved
- Two Operating



The Cannabis Industry

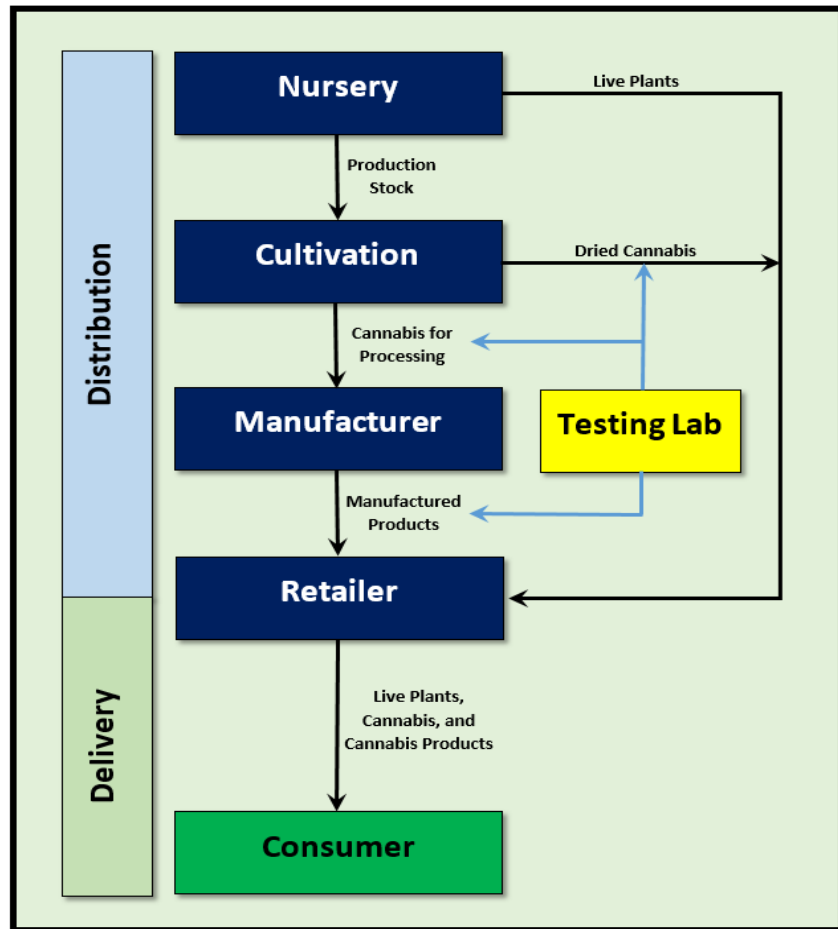


Retailer (Dispensary)

- Sells Directly to the Consumer
- Storefront
- Local Market
- Taxed at 5% GR
- CC Permit
- Five Maximum
- Five Approved
- Three Operating



The Cannabis Industry

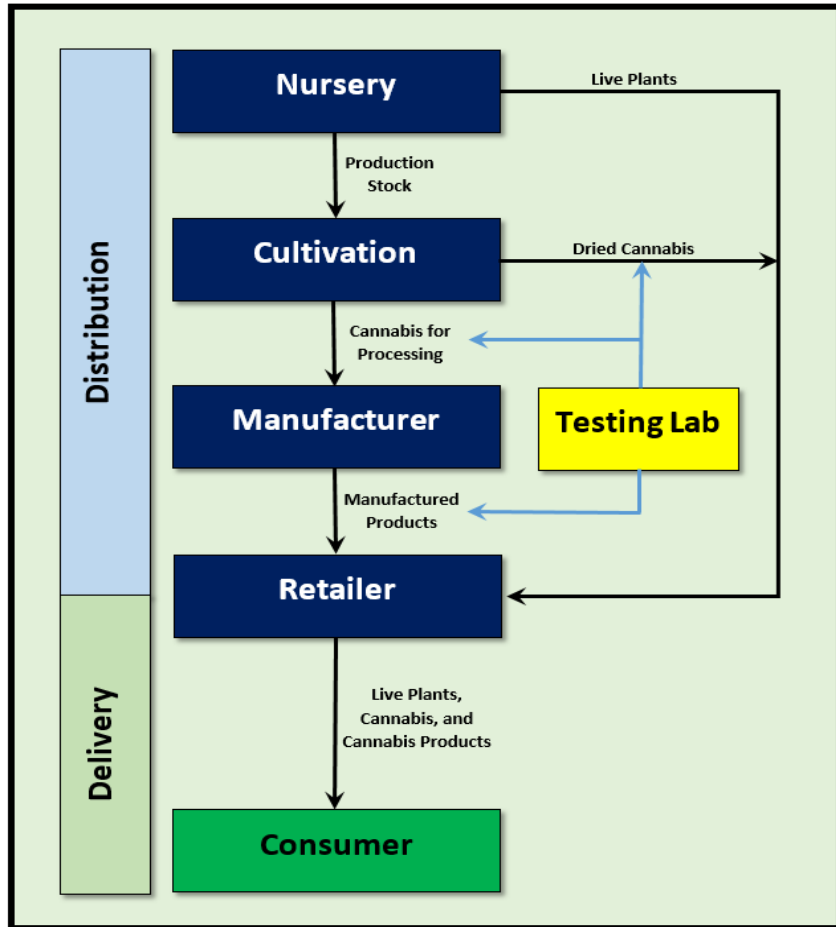


Retailer (Delivery)

- Sells Directly to the Consumer
- Non-Storefront
- Regional Market
- Taxed at 5% GR
- CC Permit
- Three Maximum
- Three Approved
- Three Operating



The Cannabis Industry

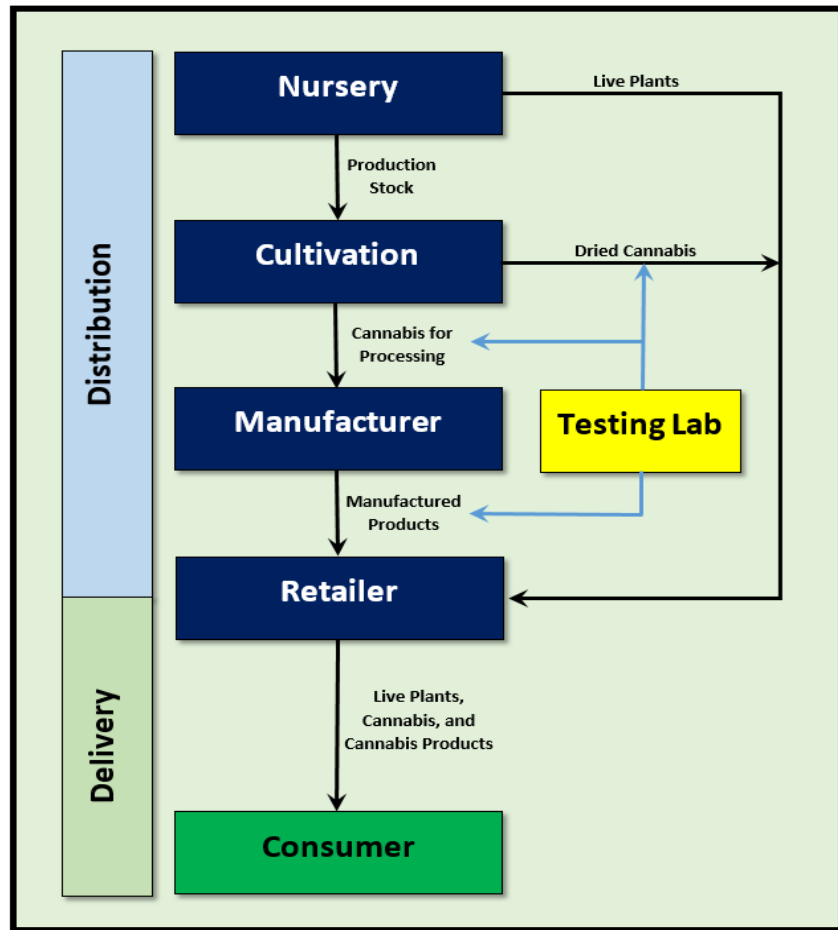


Distribution

- Moves Product Between Licensees
- Acts as Broker and Collects State Taxes
- Statewide Market
- Not Taxed
- CC Permit
- Five Maximum
- Four Approved
- Two Operating



The Cannabis Industry



Testing Lab

- Ensures Product Safety and Potency
- Tests Samples When Product is Moved
- Local/Regional Market
- Not Taxed
- Administrative Permit
- No Maximum
- Two Approved
- Two Operating

