



**CITY OF SALINAS
COUNCIL STAFF REPORT**

DATE: AUGUST 22, 2023
DEPARTMENT: COMMUNITY DEVELOPMENT
FROM: LISA BRINTON, DIRECTOR
BY: COURTNEY GROSSMAN, PLANNING MANAGER
TITLE: 2022 COMMERCIAL CANNABIS INDUSTRY ANNUAL UPDATE

RECOMMENDED MOTION:

Receive and accept the 2022 Commercial Cannabis Industry Update as required by the Salinas Municipal Code.

EXECUTIVE SUMMARY:

This report provides a summary of the cannabis industry activity in Salinas for the 2022 calendar year. The 2021 annual report noted a stabilization of some of Salinas's main cannabis businesses; however, there were challenges related to tax payments for cultivation businesses and delays in businesses becoming operational due to site selection issues and other limitations. 2022 had a similar trend of certain businesses remaining stable and profitable while others were delayed in becoming operational. Salinas currently has nine (9) operational businesses as of the end of 2022, as detailed in Table 3 below. In 2022, Cannabis businesses generated approximately \$1.5 million in tax revenue, which represents a reduction in tax revenue by about 25 percent from 2021. The reduction is the result of several industry challenges, including the economy, market conditions and inflation, over production and reductions in price per pound, a reduction in cultivation and manufacturing tax rates during the first quarter of 2023, and permitted cannabis businesses not becoming operational. This report also outlines recommended Salinas Municipal Code (SMC) and regulatory amendments related to the incorporation of commercial cannabis uses into the SMC, the siting of commercial cannabis businesses, and the collection of annual monitoring fees. It is anticipated that an ordinance amendment will be forthcoming to the City Council for consideration this Fall.

BACKGROUND:

Operational cannabis businesses began in 2017. Permitting occurs through various application rounds and includes a broad variety of commercial cannabis business types. Table 1 below provides a summary of significant state and local milestones in the development of the cannabis industry.

Table 1: State and Local Cannabis Industry Milestones

Date	Event
January 2016	City of Salinas adopts ordinance regulating cannabis businesses. A maximum of 12 businesses (three each of dispensary, manufacturing, cultivation, and delivery) are allowed.
June 2016	City of Salinas accepts applications for Commercial Cannabis Permits; 24 applications are received in this “Round 1” of permitting
August 2016	California passes Medical Cannabis Regulation and Safety Act (MCRSA)
November 2016	Proposition 64 passes, legalizing adult-use cannabis effective January 1, 2018
November 2016	Salinas Measure L passes, establishing a commercial cannabis business tax on specified businesses (Cultivation, Delivery, Dispensary, and Manufacturing)
May 2017	City of Salinas completes initial review of Commercial Cannabis Permits. Nine Permits are recommended for approval (3 each of Cultivation, Dispensary, and Manufacturing). Fourteen permits are not approved.
June 2017	California passes Medicinal and Adult-Use Regulation and Safety Act (MAUCRSA) implementing Proposition 64
August 2017	City adopts revisions to commercial cannabis ordinance. Distribution and Testing Laboratories are added as allowable businesses through Administrative Permits. Number of Permits increases from 12 to 23 (5 each for Cultivation, Dispensary, Distribution, and Manufacturing; 3 for Delivery). No maximum number of Administrative permits.
October 2017	City accepts revised permit applications from commercial cannabis businesses that were not approved in the previous permitting round. Thirteen permit reapplications are received in this “Round 1B” of permitting.
November 2017	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.
November 2017	California releases regulations implementing MAUCRSA
December 2017	City issues 11 additional permits, bringing the total number of permits issued by the City to 20
January 2018	Proposition 64 takes effect – adult-use cannabis is legal. California begins issuing temporary licenses to businesses.
May 2018	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
December 2018	City transfers management of commercial cannabis business permitting from the Economic Development Division to the Community Development Department
January 2019	City adopts ordinance extending the allowed hours of operation for cannabis dispensaries and allowing for sales on Sundays
September 2019	City accepts new permit applications; 10 applications are received in this “Round 2” of permitting
December 2019	City foregoes a scheduled tax increase on commercial cannabis businesses
August 2020	City issues 5 additional permits from Round 2, with the total number of permits issued by the City now at 18.
September 2020	City accepts new permit applications limited to the cultivation business type; 1 cultivation application was received in this “Round 3” of permitting.

January 2021	City issues 1 addition cultivation permit from Round 3, with the total number of permits issued by the City now at 19.
October 2022	City reduces cannabis manufacturing and cultivation tax rates to be more in line with best practices. Manufacturing rates reduced from 5% to 2.5% of gross receipts and cultivation reduced from \$15 to \$7 of growing area.
No applications were accepted in 2022	

City Jurisdiction of Commercial Cannabis Business Permitting

In December of 2018, responsibility over commercial cannabis business permitting was transferred from the Economic Development Division to the Community Development Department (CDD). This change was intended to improve efficiency by assigning permitting responsibility to the department best suited to manage the various needs of commercial cannabis businesses, such as building permits, inspections, and review/issuance/renewal of commercial cannabis permits.

The Community Development Department contracts with Rincon Consultants, Inc. to assist with cannabis-related tasks. A Rincon staff member spent one day per week on-site with City planning staff from December 2018 to July 2020, serving as the primary point of contact for current and prospective commercial cannabis permit-holders and assisting the Planning Manager concerning the permitting and regulation of the industry. This long-term staffing consistency has resulted in improved communication between the permitted businesses and the City as well as improved record-keeping regarding permits and fee collection. In July 2020, a new Rincon staff member took over cannabis-related tasks. Due to the COVID-19 pandemic and remoteness of the new Rincon staff member, there were minor delays in permit renewals and fee collections until the end of 2020. 2021 and 2022 saw permit renewals and fee collections become more streamlined.

Commercial Cannabis Business Permitting

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. Administrative Permits are applicable to Testing Laboratories, Small Distribution (business premises 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 that type’s role in the industry.

Table 2. Commercial Cannabis Business License Types

Salinas Business Type	Corresponding State License	Role
Cultivation (CCP)	Cultivation (Types 1-5; 14 different subtypes in total)	Growing of cannabis plants for sale to Manufacturing, Delivery, or Dispensary businesses
Manufacturing (CCP)	Manufacturer (Type 6-7)	Processing of cannabis into cannabis products

Distribution (CCP)	Distribution (Type 11)	Transports cannabis and cannabis products between licensees; collects and remits State taxes from other businesses.
Dispensary (CCP)	Retailer (Type 10)	Sells cannabis and/or cannabis products via a fixed location storefront
Delivery (CCP)	Retailer, Non-Storefront (Type 9)	Sells cannabis and/or cannabis products exclusively through delivery; must have a licensed business address, but the premises are not open to the public
Testing Laboratory (AP)	Testing Laboratory (Type 8)	Tests to ensure product safety
Nursery (AP)	Nursery (Type 4)	Grows immature plants from cuttings and seeds for internal use or sale to other Cultivation, Delivery, or Dispensary companies
Research and Development (AP)	Case-by-case	Conducts research on cannabis and/or cannabis products; excludes testing facilities
Small Distribution (AP)	Distribution (Type 11)	Transports cannabis and cannabis products between licensees; collects and remits State taxes from other businesses.

Commercial Cannabis Permits

The City allows for issuance of a maximum of 23 Commercial Cannabis Permits (CCPs). Because the available permits are limited, the City accepts applications only during designated “rounds”, allowing for applicants to competitively vie for permits. The City has conducted four such rounds: Round 1 in June 2016; Round 1B in October 2017 (reapplication for applicants that were denied in Round 1); Round 2 in September 2019; and Round 3 in September 2020. Applications are reviewed by the Cannabis Selection Committee, which is made up of one staff member from five different City departments. The City received one CCP application in Round 3 because only Cultivation permits were available due to the full permit quotas. In 2021, the Selection Committee approved the Cultivation business that was received during Round 3 as well as a Manufacturing and Distribution CCP that went through a resubmittal process from Round 2. No designated rounds of CCP applications were held during 2021 due to the limited number of available permits.

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Each CCP stipulates that a business must begin commercial cannabis business operations within one year of the date in which the permit is granted. Previous policies allowed applicants who do not meet this deadline to be able to apply for a permit amendment to grant a single 90-day extension. Subsequently, a permit was able to be amended for a second time only by a Cannabis Selection Committee vote for an indefinite extension. The City is no longer granting indefinite extensions. At the end of 2022 and continuing into 2023 the City will be notifying inactive permit holders that their permits will be revoked unless substantial action is taken within a timeframe to make permits available for other interested businesses. Table 3 below shows permit quotas, active permits (permits for businesses that are either in operation or working towards operation), and operational businesses as of July 2023.

Table 3. CCP Quotas

Business Type	Permit Quota	Approved 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.			

Table 4 below shows the current status of the 19 businesses that have been awarded a CCP and are currently either operational or pursuing operational status. Nine (9) businesses are operational and are in compliance, and 11 businesses are not operational. Of the 11 businesses not in operation, only 5 have recent activity towards progress on their business. Therefore, 2023 will be focused on making permits available to other business owners.

Table 4. Permits Awarded in 2017 through 2021

	Business Name	Address	Type	Business Status and Notes
1.	CannaCruz	1156 Abbott Street	Dispensary	Operational; CUP 2022-048 submitted to move business location to 1228 S. Main Street. Incomplete letter sent September 22, 2022 and waiting on resubmittal.
2.	Compassionate Bay	1051 Terven Avenue	Delivery	Not Operational; Revocation letter sent on April 28, 2023. Appealed to Planning Commission (permit holder did not attend the hearing). Permit was revoked on June 21, 2023.
3.	Golden Essentials	1020 Merrill Street	Delivery	Operational
5.	Cypress Manufacturing	1353 Dayton Street	Distribution	Operational
5.	Cypress Manufacturing	20 Quail Run Circle	Manufacturing	Operational
6.	Valley Farms	1610 Moffett Street	Dispensary	Operational; Zoning violation due to lack of conforming primary industrial use.
7.	710 Combinator (Grupo Flor)	518 Work Street	Manufacturing	Notified the City on July 10, 2023 of intent to not renew permit.
8.	East of Eden (Grupo Flor)	514 Work Street	Dispensary	Operational

9.	Flor X (Grupo Flor)	516 Work Street	Distribution	Operational
10.	Flor Cultivation	1155 Harkins Road	Cultivation	Operational
11.	Emerald Skyway Manufacturing, LLC	1610 Moffett Street	Manufacturing	Not Operational; property owner notified City of no intention for manufacturing and cultivation on-site. Revocation needed.
12.	Emerald Skyway Cultivation, LLC	1610 Moffett Street	Cultivation	Not Operational; property owner notified City of no intention for manufacturing and cultivation. Revocation needed.
13.	E7 Salinas, LLC	347 W. Market Street	Dispensary	Not Operational; Site Plan Review 2022-006 approved but waiting on applicant signature.
14.	E7 Salinas, LLC	347 W. Market Street	Distribution	Not Operational; Site Plan Review 2022-006 approved but waiting on applicant signature.
15.	E7 Salinas, LLC	347 W. Market Street	Manufacturing	Not Operational; Site Plan Review 2022-006 approved but waiting on applicant signature.
16.	Horizon Salinas, LLC	320 W. Market Street	Dispensary	Not Operational; Property owner notified City of intent to sell the site. Revocation letter sent to CCP holder. Appealed to Planning Commission, which on May 17, 2023 granted a one-year extension to become operational.
17.	Horizon Salinas, LLC	320 W. Market Street	Distribution	Not Operational; Property owner notified City of intent to sell the site. Revocation letter sent to CCP holder. Appealed to Planning Commission, which on May 17, 2023 granted a one-year extension to become operational
18	Cypress Manufacturing Cultivation	1353-B Dayton Street	Cultivation	Not Operational
19.	Sanborn Distribution	737 Sanborn Place	Distribution	Not Operational
20.	Sanborn Manufacturing	737 Sanborn Place	Manufacturing	Not Operational

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. Obtaining and maintaining an administrative permit is considerably simpler and less expensive in comparison to the CCP process. However, applicants for administrative permits must also obtain a state license. Table 5 below shows the administrative permits that have been issued and remain active (business is operational or is working towards operational status). There were no administrative permit submittals in 2022.

Table 5. Administrative Permits: Operational Status

	Business Name	Address	Type	Business Status*
1.	OPM Holdings	743 Sanborn Place	Small Distribution	Operational
2.	ProForma Labs	1514 Moffett Street	Testing Lab	Operational
3.	American Biotech Testing	607 Brunken Avenue	Testing Lab	Operational
*As of January 2023				

Impacts on City Resources

In September 2017, the Council adopted monitoring fees to compensate the City for the ongoing costs relating to monitoring of commercial cannabis businesses and 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 are collected for three City departments: Community Development, Police, and City Attorney. In addition, a monitoring fee is charged to cover the cost for a third party regulatory and financial assessment of the businesses. Table 6 shows monitoring fee rates and Table 7 shows the total monitoring fee payments received in 2022.

Table 6. Salinas Cannabis Monitoring Fee Rates

Monitoring Department	Monitoring Fee Rate Per Permit (2020)
Community Development Department	\$2,314.00
Police Department	\$8,690.75
City Attorney's Office	\$759.00
Financial Consultant	Varied based on business type and revenue; between \$5,770 and \$16,480*

Table 7. Approximate Salinas Cannabis Monitoring Fees Collected in 2022

Monitoring Department	2021 Total
Police	\$78,216
Community Development Department	\$20,826

City Attorney’s Office	\$6,831
Financial Consultant	\$63,951 (estimate)
Total:	\$169,824

As shown above, approximately \$169,824 in monitoring fees was collected in 2022. The largest sum was collected to pay for the Police monitoring fees. The financial consultant monitoring fees are collected at-cost from the businesses. Future adjustments to monitoring fees may be needed to more appropriately allocate funds in accordance with staff demands. SCI Consulting Group took over auditing and permit assessments from MGO in 2023. Monitoring fees will be changing slightly based on the new contract agreement. Additional fees collected during 2022 included over \$13,644 in CCP renewal fees. These fees are intended to cover the cost of application processing.

Community Impacts

During 2021 there were no crimes reported related to cannabis businesses. In previous years crimes included transporting product without a license and embezzlement. No data for 2022 was available at the time of this report.

Tax Revenue from the Commercial Cannabis Industry

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. The original tax rates were scheduled to increase in 2020; however, in December 2019 Council voted to forgo the scheduled increase. At the October 18, 2022, public hearing, Council voted for a manufacturing and cultivation tax reduction to bring the rate in line with other jurisdictions. The manufacturing and cultivation rates were reduced by half from 5 percent to 2.5 percent of gross receipts for manufacturing and \$15 to \$7 per square foot of growing area for cultivation. The rate reductions were implemented during the 4th Quarter of 2022 (September to December). All other rates remain the same. Table 8 lists the rates levied on each business type. Taxes are not levied on the business types not listed.

Table 8. Cannabis Business Tax Rates

Business Type	Current Rate
Delivery	5% of gross receipts
Dispensary	5% of gross receipts
Manufacturing	2.5% of gross receipts
Cultivation	\$7 per square foot
Nursery	\$2 per square foot

The Community Development Department coordinates with the Finance Department to monitor tax collection and the good standing of each business. Annual assessments previously were performed by MGO to provide detailed auditing of tax payments. Audits will now be performed by SCI Consulting who is currently in the process.

For the first time since the cannabis businesses become operational, tax revenue is falling. Tax revenue decreased by about 25 percent from 2021 to 2022, which is generally consistent with a

reduction in statewide tax revenue during the same time frame. Monterey County is also seeing a reduction in cannabis operators and a reduction in cannabis tax revenue. There are multiple factors that could have led to this decrease, which are detailed in the industry challenges section below. One reason specific to the City could be the reduction of businesses in operation, the number of CCP holders that are not operational, and the tax rate reductions that occurred during the 4th Quarter of 2022. All operational businesses are up to date on their tax payments. Table 9 below shows cannabis revenue by businesses that conducted commercial cannabis operations from 2018 through 2022. Table 10 compares tax revenue per quarter from 2018 through 2020.

Table 9. Salinas Cannabis Industry Tax Revenue by Permittee: 2018-2022

	Business Name	Business Type	2018 Total	2019 Total	2020 Total	2021 Total	2022 Total
1.	Cypress Manufacturing	Manufacturing	\$482,057	\$561,166	\$491,149	\$509,850	\$332,729
2.	710 Combinator	Manufacturing	IA	\$247	\$20,135	\$86,371	\$33,972
3.	Valley Farms	Dispensary	\$226,967	\$247,140	\$113,339	\$192,574	\$131,939
4.	East of Eden	Dispensary	\$58,508	\$671,348	\$841,909	\$732,932	\$517,295
5.	CannaCruz	Dispensary	IA	\$31,003	\$169,425	\$296,121	\$368,478
6.	Compassionate Bay	Delivery	\$43,067	\$42,314	\$89,507	\$69,934	\$47,784
7.	Golden Essentials	Delivery	\$46,029	\$46,658	\$40,512	\$32,056	\$11,445
8.	Purple Trilogy	Delivery	\$13,819	\$28,165	\$67,325	\$40,561	IA
9.	Flor Cultivation	IA	IA	IA	\$8,679	\$73,539	\$76,304
9.	ProForma Labs	Testing Laboratory	E	E	E	E	E
10.	American Biotech Testing	Testing Laboratory	E	E	E	E	E
	Total:	Industry-wide	\$870,448	\$1,628,413	\$1,842,033	\$2,033,937	\$1,519,945
IA = business was <i>inactive</i> during this term, i.e. not yet conducting commercial operations and paying the cannabis business tax							
E = business type is <i>exempt</i> from local cannabis tax							

Table 10. Salinas Cannabis Industry Tax Revenue by Quarter: 2018 through 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)

Cannabis Industry Challenges

The following discussion is based on City staff experiences working on commercial cannabis business permitting, including input from consulting staff, interagency coordination, and discussions with permittees and applicants. In addition, it is based on recent news articles on the cannabis industry overall in the State. This analysis is anecdotal and has not been independently verified.

Many of the concerns identified in 2021 were still applicable in 2022 as there were no Municipal Code updates or changes to the processes. However, manufacturing and cultivation tax rates were reduced in the 4th quarter of 2022. Decreases in cannabis revenue collected by the City could be tied to several factors that are impacting cannabis business statewide as well as city-specific factors. These include but are not limited to:

- Economic challenges and inflation during the past 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

Recommended Municipal Code and Regulatory Updates

The following are recommended Salinas Municipal Code (SMC) and regulatory amendments related to the incorporation of commercial cannabis uses into the SMC, the siting of commercial cannabis businesses, and the collection of annual monitoring fees. It is anticipated that an Ordinance Amendment will be forthcoming to the City Council for consideration this Fall.

Salinas Municipal Code Updates

The Zoning Code currently does not address cannabis uses, and the current process for determining zoning compatibility involves equating a cannabis use to a similar non-cannabis use. Adding cannabis uses to the Zoning Code would improve transparency, consistency, and the ability of applicants to find the information that they need. If cannabis uses are not desired within the Zoning Code, then updates to SMC Section 5-07 could include what a typical land use a cannabis use is equated to improve clarity.

Siting of Commercial Cannabis Businesses

The City could also reconsider the restrictions that govern where commercial cannabis businesses may be located. The SMC places “sensitive use” restrictions on the siting of cannabis businesses including prohibiting cannabis businesses from being located within 1,000 feet of various sensitive uses, such as schools, parks, or alcohol sales. The restrictions have proven difficult for applicants to comply with or find suitable sites in the City. In particular, dispensary applicants are discouraged from commercial districts due to the prevalence of alcohol sales and are pushed into industrial locations. An appeal to the Planning Commission is often necessary to move forward. Existing

dispensary operations have expressed that the industrial areas are not suitable for commercial dispensary operations due to the limited traffic flow in these areas and proximity to customers. Reconsideration of sensitive use restrictions could allow for more appropriate and flexible siting of cannabis businesses. Because of the high degree of security required for these businesses and the continued improvement to odor abatement measures, security and nuisance issues related to sensitive use proximity may be less of a concern than was originally anticipated. Removal of alcohol sales as a classified sensitive use, or reducing the buffer distance, could provide more flexibility for cannabis businesses to operate on sites more sustainable for business operations.

Application and CCP Renewal Review Process

The City's procedure for receiving and reviewing CCP applications could be reconsidered. The SMC stipulates a Cannabis Selection Committee to review and award permits; however, limited detail is provided as to how the application rounds should be conducted. The competitive permitting process is complicated and unique from how other City permits are awarded, resulting in a lengthy and time-intensive process. The SMC could be revised to ensure consistency and best practices in future permitting rounds, or the City could consider an alternate method for awarding CCPs similar to the issuance of conditional use permits.

Monitoring fees for cannabis businesses (CCPs) are collected prior to issuance of a certificate of occupancy, and then collected annually on the anniversary of that date in addition to the CCP renewal. With the increasing number of commercial cannabis businesses becoming operational, there is unnecessary complexity collecting and managing CCP renewals and monitoring fees that occur throughout the year. A single date that applies to all operational cannabis businesses could make for simple tracking and monitoring, instead of dates throughout the year that are specific to each business in operation.

CEQA CONSIDERATION:

There is no action required with this report and therefore it is not a project as defined by the California Environmental Quality Act (CEQA) (CEQA Guidelines Section 15378). Any subsequent discretionary projects resulting from this action will be assessed for CEQA applicability.

STRATEGIC PLAN INITIATIVE:

The City's Cannabis furthers the City Council Goal of Economic Development: Sustain, encourage, and develop a diverse and thriving economy that benefits all Salinas residents and businesses and that contributes to the community's economic health.

DEPARTMENTAL COORDINATION:

The Community Development Department coordinates frequently with the City Attorney's Office on matters related to commercial cannabis permitting. Additional coordination occurs with the Finance Department, Police Department, and Economic Development Department.

FISCAL AND SUSTAINABILITY IMPACT:

As no action is required, there is no direct impact to the General Fund with the acceptance of this report. While the report includes discussion of tax revenue, it is not an independently verified financial reporting document, and should be used for informational purposes only.