



## **CITY OF SALINAS COUNCIL STAFF REPORT**

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**DATE:** FEBRUARY 15, 2022

**DEPARTMENT:** COMMUNITY DEVELOPMENT DEPARTMENT

**FROM:** MEGAN HUNTER, COMMUNITY DEVELOPMENT DIRECTOR

**THROUGH:** COURTNEY GROSSMAN, PLANNING MANAGER

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**TITLE:** COMMERCIAL CANNABIS INDUSTRY IN SALINAS

**RECOMMENDATION:**

There is no formal 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 (SMC) Sec. 5-07.49, City staff shall prepare reports to the City Council providing findings regarding the operations of commercial 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 and the second was presented on February 19, 2019, the third presented on March 3, 2020, and the forth presentation on March 3, 2021. Annual reports are presented in February of each year unless the Council designates an alternative schedule.

The legal commercial cannabis industry (“the industry”) matured considerably within the City of Salinas in 2019 and 2020. The City’s cannabis business tax is generating over \$1.8 million annually for the City’s general fund in 2020 and 2021. A number of the City’s permitted commercial cannabis businesses have demonstrated sustainable profitability and regulatory compliance, but revisions to cannabis tax rates and modifications to the sensitive use distance requirements could improve existing CCP holder profitability and promote new businesses.

**BACKGROUND/ANALYSIS:**

Among cities that allow commercial cannabis activity, Salinas has developed a relatively permissive stance by allowing for a broad variety of commercial cannabis business types. Salinas currently has 11 operational businesses as of the end of 2021, as detailed in Table 3 below. Table 1 below provides a brief summary of significant state and local milestones in the development of this industry.

**Table 1: State and Local Cannabis Industry Milestones**

Date	Event
<b>January 2016</b>	City of Salinas adopts ordinance regulating cannabis businesses. A maximum of 12 businesses (three each of dispensary, manufacturing, cultivation, and delivery) are allowed.
<b>June 2016</b>	City of Salinas accepts applications for Commercial Cannabis Permits; 24 applications are received in this “Round 1” of permitting
<b>August 2016</b>	California passes Medical Cannabis Regulation and Safety Act (MCRSA)
<b>November 2016</b>	Proposition 64 passes, legalizing 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 permits 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 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.
<b>October 2017</b>	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.
<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 Economic Development Division to the Community Development Department
<b>January 2019</b>	City adopts ordinance extending the allowed hours of operation for cannabis dispensaries and allowing for sales on Sundays
<b>September 2019</b>	City accepts new permit applications; 10 applications are received in this “Round 2” of permitting
<b>December 2019</b>	City foregoes a scheduled tax increase on commercial cannabis businesses
<b>August 2020</b>	City issues 5 additional permits from Round 2, with the total number of permits issued by the City now at 18.
<b>September 2020</b>	City accepts new permit applications limited to the cultivation business type; 1 cultivation application was received in this “Round 3” of permitting.

<b>January 2021</b>	City issues 1 additional cultivation permit from Round 3, with the total number of permits issued by the City now at 19.
<b>No applications were accepted in 2021</b>	

This report provides a summary of the industry for the 2021 calendar year. Last year’s annual report noted that 2020 continued to see stabilization in the industry with the exception of the COVID-19 pandemic, which disrupted staffing levels, inventory levels, and overall operations, especially for dispensary permit operations. 2021 saw continued stabilization but also challenges related to tax payments for cultivation businesses and delays in businesses becoming operational due to site selection issues and limitations.

### 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 has contracted with Rincon Consultants, Inc. to assist with cannabis-related tasks. The same Rincon staff member has 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 the 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 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
<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 products
<b>Distribution (CCP)</b>	Distribution (Type 11)	Transports cannabis and cannabis products between licensees; collects and remits State taxes from other businesses.
<b>Dispensary (CCP)</b>	Retailer (Type 10)	Sells cannabis and/or cannabis products via a fixed location storefront
<b>Delivery (CCP)</b>	Retailer, Non Store-front (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
<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	Conducts research on cannabis and/or cannabis products; excludes testing facilities
<b>Small Distribution (AP)</b>	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 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. 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 January 2022.

**Table 3. CCP Quotas**

Business Type	Permit Quota	Active Permits*	Operational Businesses*
<b>Cultivation</b>	5	3	1
<b>Delivery</b>	3	3	3
<b>Dispensary</b>	5	5	3
<b>Distribution</b>	5	5	2
<b>Manufacturing</b>	5	5	2
<b>Total</b>	23	21	11
*As of January 2022.			

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. However, the permit amendment and extension provisions and CCP conditions are being revised for the recent CCPs for consistency with current planning time extensions and to limit indefinite extensions. See discussion under Salinas Municipal Code Updates below.

Table 4 below shows the 21 businesses that have been awarded permits and are currently either operational or pursuing operational status. The updated status of the City's 21 active CCPs is shown below.

**Table 4. Permits Awarded in 2017 through 2021**

	Business Name	Address	Type	Business Status
1.	CannaCruz	1156 Abbott Street	Dispensary	Operational
2.	Compassionate Bay	1051 Terven Avenue	Delivery	Operational
3.	Golden Essentials	1020 Merrill Street	Delivery	Operational
4.	Purple Trilogy	1020 Merrill Street	Delivery	Operational
5.	Cypress Manufacturing	1353 Dayton Street	Distribution	Operational
6.	Cypress Manufacturing	20 Quail Run Circle	Manufacturing	Operational
7.	Emerald Skyway, LLC	1610 Moffett Street	Dispensary	Operational
8.	710 Combinator (Grupo Flor)	518 Work Street	Manufacturing	Operational
9.	East of Eden (Grupo Flor)	514 Work Street	Dispensary	Operational
10.	Flor X (Grupo Flor)	516 Work Street	Distribution	Operational
11.	Flor Cultivation	1155 Harkins Road	Cultivation	Partially Operational

12.	Emerald Skyway Manufacturing, LLC	1610 Moffett Street	Manufacturing	Not Operational
13.	Emerald Skyway Cultivation, LLC	1610 Moffett Street	Cultivation	Not Operational
14.	E7 Salinas, LLC	347 W. Market Street	Dispensary	Not Operational
15.	E7 Salinas, LLC	347 W. Market Street	Distribution	Not Operational
16.	E7 Salinas, LLC	347 W. Market Street	Manufacturing	Not Operational
17.	Horizon Salinas, LLC	320 W. Market Street	Dispensary	Not Operational
18.	Horizon Salinas, LLC	320 W. Market Street	Distribution	Not Operational
19	Cypress Manufacturing Cultivation	1353-B Dayton Street	Cultivation	Not Operational
20.	Sanborn Distribution	737 Sanborn Place	Distribution	Not Operational
21.	Sanborn Manufacturing	737 Sanborn Place	Manufacturing	Not Operational

Eleven businesses are now operational, and ten businesses are still working towards operational status, two of which have previously approved indefinite extensions. The delays have involved challenges related to physical building improvements, site selection, state licensing challenges and recently issued permits.

### 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).

**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 2022				

In addition to the three businesses listed above, a number of other applicants have been awarded Administrative Permits but abandoned prior to achieving operational status. There were no administrative permit submittals in 2021.

### 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 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 performed by the firm Macias Gini & O'Connell (MGO).

Table 6 shows monitoring fee rates and Table 7 shows the total monitoring fee payments received in 2021.

**Table 6. Salinas Cannabis Monitoring Fee Rates.**

Monitoring Department	Monitoring Fee Rate Per Permit (2020)
Community Development Department	\$2,257.50
Police Department	\$8,478.75
City Attorney's Office	\$740.50
Financial Consultant (MGO)	Varies based on business type and revenue; between \$5,770 and \$16,480*
*MGO announced they are not conducting assessments in 2022.	

**Table 7. Salinas Cannabis Monitoring Fees Collected in 2021.**

Monitoring Department	2021 Total
Police	\$75,275
Community Development Department	\$20,057
City Attorney's Office	\$6,574
Financial Consultant (MGO)	\$69,721
<b>Total:</b>	<b>\$171,627</b>

As shown above, approximately \$171,627 in monitoring fees was collected in 2021. The largest sum was collected to pay for the assessments performed by MGO. The financial consultant monitoring fees are collected at-cost from the businesses. Future adjustments to monitoring fees may be needed in order to more appropriately allocate funds in accordance with staff demands.

Additional fees collected during 2021 included over \$13,133 in CCP renewal fees. These fees are intended to cover the cost of application processing.

## Employment/Community Impacts

As noted last year during 2020, there were a few crimes tied to cannabis operations in the City. An individual tied to Purple Trilogy was arrested by the City of Hollister Police Department for conducting business and transporting product without a license. Cypress Manufacturing had an employee embezzle money from them and American Biotech Testing had equipment stolen during a break-in. There were no crimes identified in 2021.

CCP permittees report affiliation with or donations to a number of nonprofit groups, including the Boys and Girls Club of Monterey County, NAACP, and Black Lives Matter. CCP permittees also provide employment opportunities in the City. As shown below in Table 8, Salinas's commercial cannabis businesses directly employ approximately 323 individuals. There is further employment growth potential associated from the businesses currently not operational in the City.

**Table 8. Salinas Cannabis Industry Employment**

	Business Name	Business Type	Employees*
1.	Cypress Manufacturing	Manufacturing	103
2.	710 Combinator	Manufacturing	25
3.	Emerald Skyway	Dispensary	25**
4.	East of Eden	Dispensary	35**
5.	CannaCruz	Dispensary	18
6.	Compassionate Bay	Delivery	25**
7.	Golden Essentials	Delivery	5**
8.	Purple Trilogy	Delivery	17
9.	Cypress Manufacturing	Distribution	51
10.	Flor X	Distribution	10
11.	OPM Holdings	Small Distribution	1
12.	ProForma Labs	Testing Lab	6
13.	American Biotech Testing	Testing Lab	2
	Total:	Industry-wide	323
*Employee tallies are self-reported by business or estimated by City staff			
**Employee numbers utilized 2020 estimates			

## 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. Therefore, the rates listed below remain in effect. Table 9 lists the rates levied on each business type. Taxes are not levied on the business types not listed.

**Table 9. Cannabis Business Tax Rates**

Business Type	Current Rate
<b>Delivery</b>	5% of gross receipts
<b>Dispensary</b>	5% of gross receipts
<b>Manufacturing</b>	5% of gross receipts
<b>Cultivation</b>	\$15 per square foot
<b>Nursery</b>	\$2 per square foot

The Community Development Department coordinates with the Finance Department to monitor tax collection and the good standing of each business. The annual assessments performed by MGO provide detailed auditing of tax payments. A few businesses had deferred or late tax payments. However, as of January 2022, all businesses are caught up with their respective tax payments for the first time since the start of the collection of these taxes.

Table 10 below shows cannabis revenue by businesses that conducted commercial cannabis operations from 2017 through 2020. Table 11 compares tax revenue per quarter from 2018 - 2020.

**Table 10. Salinas Cannabis Industry Tax Revenue by Permittee: 2017-2021**

	Business Name	Business Type	2017 Total	2018 Total	2019 Total	2020 Total	2021 Total
1.	Cypress Manufacturing	Manufacturing	\$335,379	\$482,057	\$561,166	\$491,149	\$401,806
2.	710 Combinator	Manufacturing	\$4,937	IA	\$247	\$20,135	\$72,843
3.	Emerald Skyway	Dispensary	IA	\$226,967	\$247,140	\$107,333	\$151,838
4.	East of Eden	Dispensary	IA	\$58,508	\$671,348	\$841,909	\$562,003
5.	CannaCruz	Dispensary	IA	IA	\$31,003	\$169,425	\$221,441
6.	Compassionate Bay	Delivery	\$14,955	\$43,067	\$42,314	\$89,507	\$64,175
7.	Golden Essentials	Delivery	\$24,034	\$46,029	\$46,658	\$26,360	\$24,078
8.	Purple Trilogy	Delivery	IA	\$13,819	\$28,165	\$67,325	\$22,679
9.	Flor Cultivation	IA	IA	IA	IA	\$8,679	\$55,154
9.	ProForma Labs	Testing Laboratory	E	E	E	E	E
10.	American Biotech Testing	Testing Laboratory	E	E	E	E	E
	<b>Total:</b>	<b>Industry-wide</b>	<b>\$374,368</b>	<b>\$870,448</b>	<b>\$1,628,413</b>	<b>\$1,842,033</b>	<b>\$1,576,018</b>
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 11. Salinas Cannabis Industry Tax Revenue by Quarter: 2018 through 2021**

Year	Q1	Q2	Q3	Q4
<b>2018</b>	\$120,736	\$143,838	\$328,894	\$276,979
<b>2019</b>	\$343,833	\$432,000	\$409,701	\$442,778
<b>2020</b>	\$470,916	\$503,765	\$357,502	\$509,849
<b>2021</b>	\$536,363	\$525,501	\$514,153	n/a
Q = quarter (three month period)				

Tax revenue increased by 53 percent from 2018 to 2019 and by approximately 12 percent from 2019 to 2020. Not all fourth quarter 2021 revenue data was available or processed as of the writing of this report; however, tax revenue from 2021 will likely exceed 2020 by approximately \$200,000 if trends from the previous three quarters remain the same. Taxes collected to date have been generated by just nine businesses. Tax revenue will likely increase again in 2022 as additional businesses initiate operations.

Late payment of taxes has been a recurring issue for the Finance Department. To date, no enforcement has occurred other than fines; no business permits have been revoked as a result of delinquent taxes. A letter of potential revocation was issued this year, but associated taxes were paid in full following the letter. The Finance Department is more strictly enforcing tax payments in order to conduct fair tax assessments. The City may consider a reduction in tax rates, as the current rates contribute to the overall expense burden (described below in the next section) that threatens the sustainability of the industry. Cultivation tax rates have been highlighted by businesses and interested applicants as a hinderance to cannabis cultivation within the City.

### 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 permittees and applicants. This analysis is anecdotal and has not been independently verified.

In last year's annual report, concerns related to costs for business applicants and improvements to the City's regulation of the industry and processes were summarized. Similar to 2020, much of the same concerns were applicable to 2021. There were no Municipal Code updates or changes to the processes or tax rates during 2021. However, new challenges have also been identified by existing CCP holders and interested businesses.

Marcias Gini and O'Connell LLP (MGO) prepared assessment reports for operational cannabis businesses in 2021. Findings from the assessment reports showed cannabis business are not operating in complete compliance with all components of the Salinas Municipal Code. Common compliance issues included business not having employees with identification cards (SMC 5-07.25(b)), records maintenance of cannabis waste disposal (SMC 5-07.19(g)(3)), and security camera accessibility requirements with the Salinas Police Department (SMC 5-07.24(a)(4)). Other compliance issues related to odor abatement measures. Coming into compliance with City regulations may create some challenges for businesses in 2022.

The following items describe challenges related to the City's regulation of the industry.

### *Cannabis Cultivation Businesses Profitability*

Cannabis cultivation businesses with CCPs and those interested in obtaining CCPs in Salinas have expressed concerns with profitability related to the existing tax rates associated with cultivation in the City. In December 2019, the City Council passed on a scheduled tax increase, leaving tax rates the same. Cultivation tax rates in the City remain at \$15 per square-foot of canopy space, which is higher than Monterey County and other neighboring jurisdictions which tax cannabis cultivation based on square feet of canopy space. Table 12 summarizes nearby and similar jurisdictions and their cultivation tax rates, which are based on a percentage of gross receipts or area of canopy space.

**Table 12. Cannabis Cultivation Tax Rates**

Jurisdiction	Cultivation Tax Rate as of January 2022	Notes
<b>City of Santa Cruz</b>	6% gross receipts	
<b>City of San Jose</b>	4% gross receipts	
<b>City of Watsonville</b>	\$10 per square-foot of canopy space	Reduced in 2021
<b>Monterey County</b>	\$8 per square-foot of canopy space	
<b>San Luis Obispo County</b>	\$7 per square-foot of canopy space	Can go up to \$10
<b>Santa Barbara County</b>	4% gross receipts	
<b>City of Paso Robles</b>	\$10 per square-foot of canopy space	

Commercial cannabis businesses also pay a state excise tax and state licensing fees as well as local CCP renewal and monitoring fees, all of which are unique to the industry and create concerns over profitability. However, cannabis cultivation business primarily have pointed to the tax rate in the City as their main area of concern. Cannabis cultivation business have since highlighted that tax rates associated with square-feet of canopy space can result in major problems in the event of minor crop failures or unknown barriers such as the COVID-19 pandemic disrupted staffing levels and inventory. Businesses have pointed to a tax rate based on gross receipts, similar to other jurisdictions throughout California. This may be a better approach since cultivation within Salinas is different than the more rural areas in the County.

Given the recurring theme that taxes are impacting the sustainability of the local industry, the City could hire a consultant to evaluate existing taxes and best practices and make recommendations on appropriate rates for consideration by City Council.

## *Salinas Municipal Code Updates*

Currently an applicant has one year to obtain a certificate of occupancy and initiate business operations. Current CCP Guidelines and conditions are being revised for consistency with planning permit time extensions and limit indefinite extensions. Updates to SMC Section 5-07 to establish a clear process for time extensions and prohibit indefinite extensions would address this issue.

The Zoning Code currently does not address cannabis uses, and the current process for determining zoning compatibility involved 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 may be appropriate to link a cannabis use to a land use in the Zoning Code. This could be considered as part of the General Plan Update, which will include a major overhaul of the Zoning Code.

The SMC Section 5-07.31 permits no more than five dispensary permits to operate in the City at any one time and no more than five permits shall be issued by the City. Interested dispensary businesses have expressed a desire to increase this number based on their existing demands.

## *Siting of Commercial Cannabis Businesses*

The City could reconsider the restrictions that govern where commercial cannabis businesses may be located. The SMC places “sensitive use” restrictions on the siting of cannabis businesses. These prohibit 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 effectively barred from commercial districts due to the prevalence of alcohol sales in those areas and pushed to industrial locations. Existing dispensary operations have expressed that these 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 businesses. Because of the high degree of security that is required for these businesses and the continued improvement and odor abatement measures, security and nuisance issues related to sensitive use proximity may be less of a concern than was originally anticipated. The removal of alcohol sales as a classified sensitive use could provide more flexibility for cannabis business to operate on sites more sustainable for business operations.

In addition, the zoning code does not address commercial cannabis uses; therefore, planning staff must equate commercial cannabis uses to other uses in order to evaluate zoning compliance. This methodology is difficult for prospective applicants to determine the areas where their business could be permitted.

## *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.

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:

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

#### DEPARTMENT 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 the City Manager’s Office.

#### STRATEGIC PLAN INITIATIVE:

The Commercial Cannabis Industry is related to the City Council strategic goals of New Revenue and Operational Efficiencies.

#### 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.