

# Commercial Cannabis Industry Annual Update



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# 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 21 permits out of a total of 23
  - At or near permit quota for dispensary, distribution, and manufacturing
  - 11 businesses are operational and have received a certificate of occupancy
  - 10 businesses working on land use entitlements or building permits

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.			

# Fiscal Impact of Cannabis

- The City collects monitoring fees to compensate for costs relating to monitoring and enforcement of commercial cannabis businesses
- Approximately \$177,627 in monitoring fees were collected in 2021
  - Over \$13,000 in permit application and renewal fees to cover application processing expenses was collected.

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>

# 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
- In 2020 approximately 393 people were directly employed by cannabis businesses
- In 2021, approximately 323 people were employed

# 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

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

# Tax Revenue

- Taxes for 2020, excluding some 4<sup>th</sup> quarter numbers, were over \$1.8M
  - Tax revenue increased by 12 percent from 2019 to 2020
  - Tax revenue from 2021 will likely exceed 2020 by approximately \$200,000 if trends from the previous three quarters remain the same

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)				

# Industry Challenges

- 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
- Key industry challenges:
  - Cannabis business profitability due to high taxes/fees/regulatory burdens
    - State, Federal, and Local Taxes
    - Compliance with strict product testing, monitoring, and security requirements

# Cannabis Cultivation Tax Rates

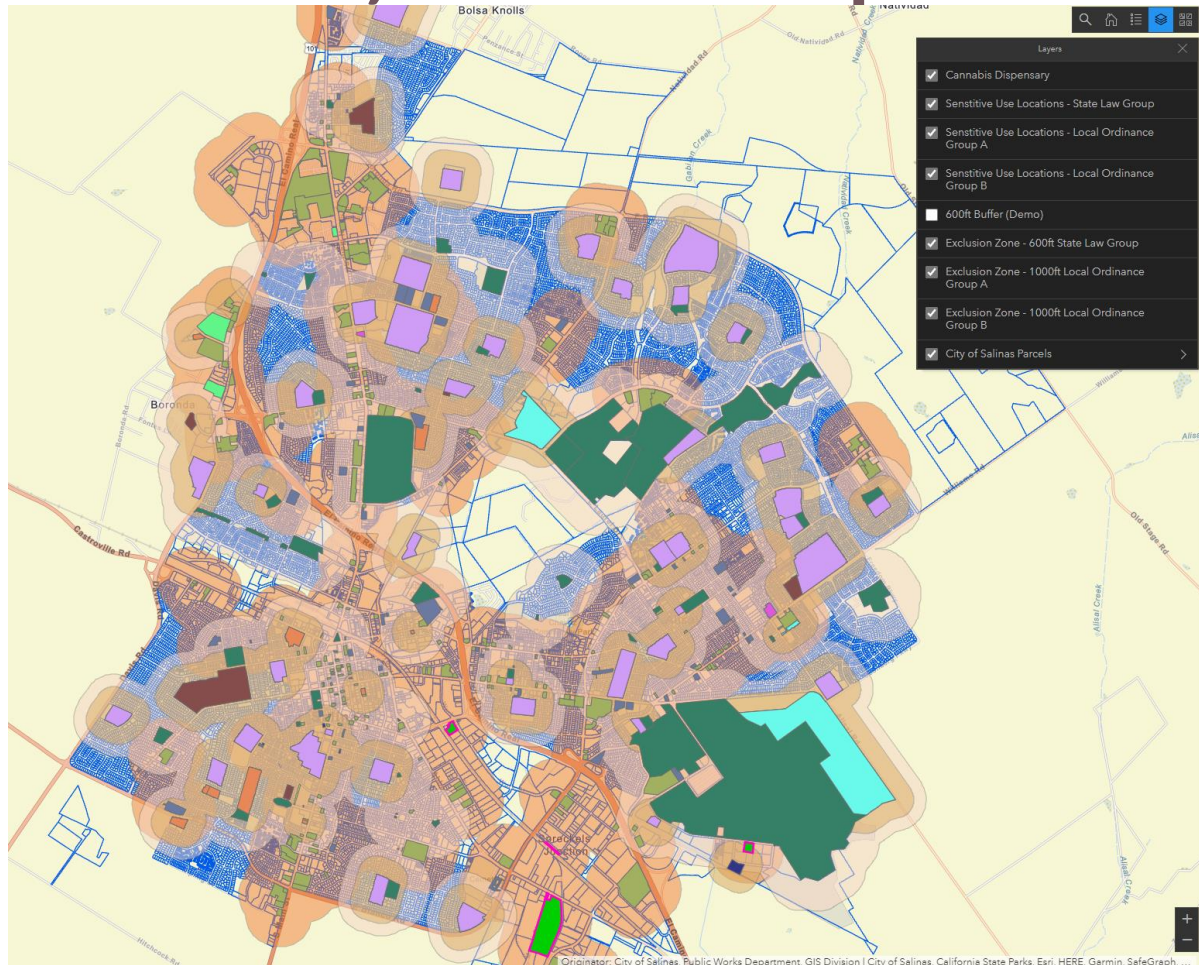
Jurisdiction	Cultivation Tax Rate as of January 2022	Notes
City of Santa Cruz	6% gross receipts	
City of San Jose	4% gross receipts	
City of Watsonville	\$10 per square-foot of canopy space	Reduced in 2021
Monterey County	\$8 per square-foot of canopy space	
San Luis Obispo County	\$7 per square-foot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

# City Regulatory Challenges

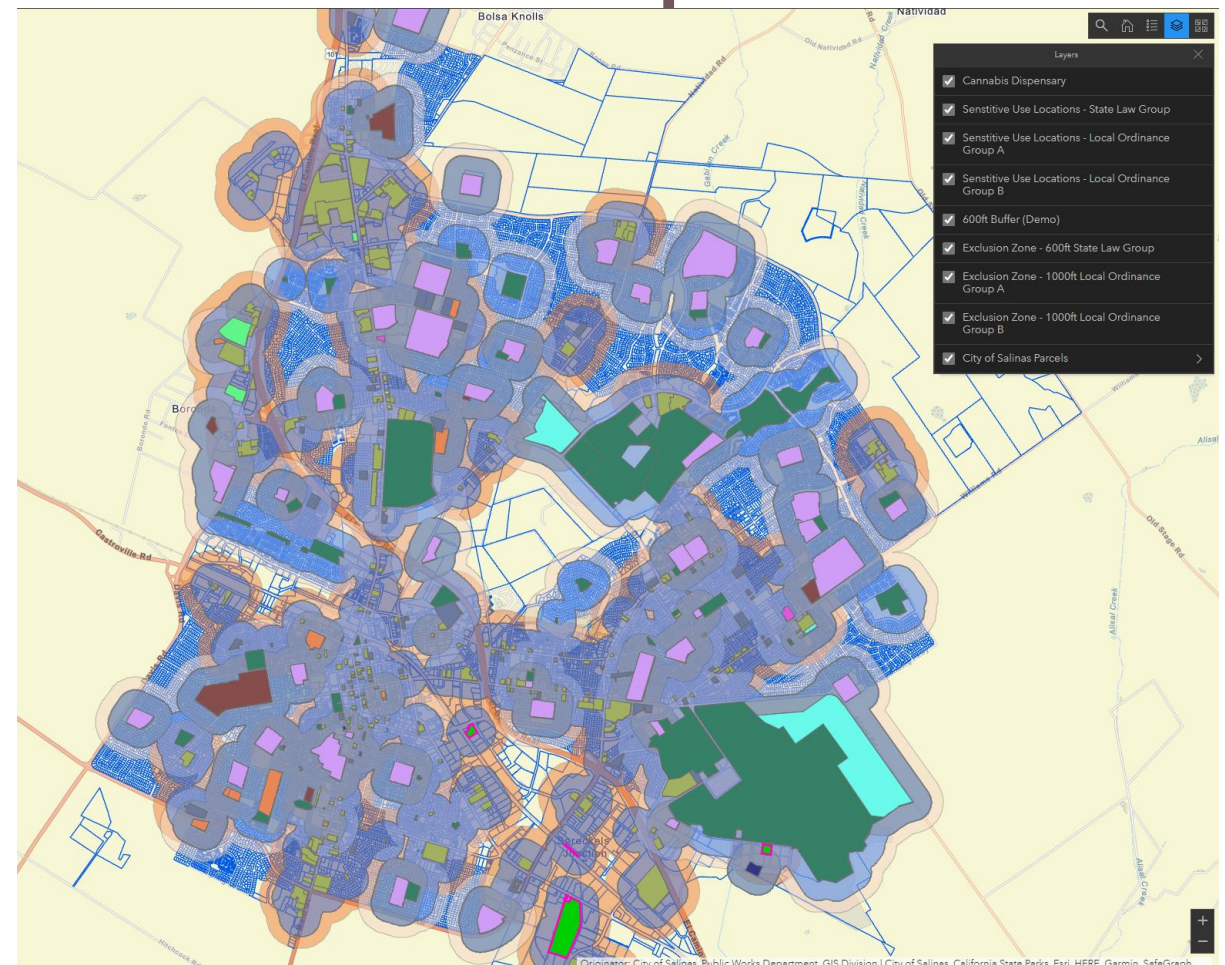
- Potential Municipal Code Updates:
  - Establish time extensions and limit indefinite extensions, consistent with planning entitlement requirements
  - Address Inactive Permits
  - Address cannabis uses in the Zoning Code
  - Reconsider sensitive use restrictions to allow for more appropriate and flexible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

# Proximity to Sensitive Uses:

## 1,000' Map



## 600' Map



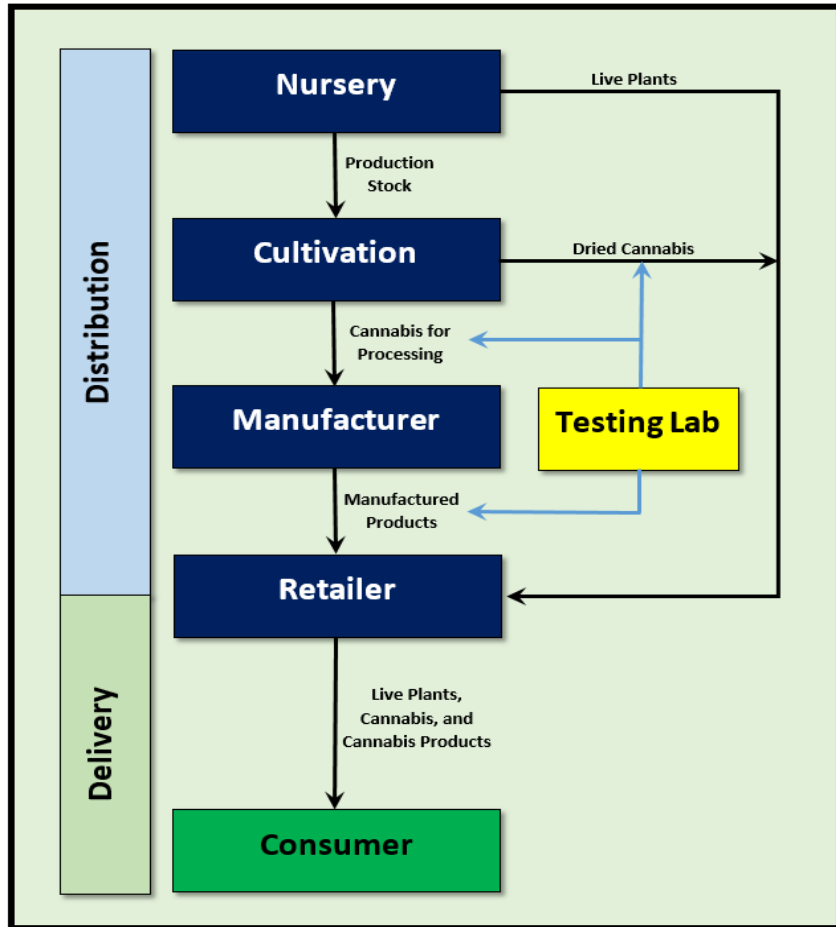
# Cannabis Subcommittee

- Subcommittee met on February 8, 2022:
  - Tax Collection and Rates – Recommended engaging with a Consultant to identify best practices for tax collection and rates
  - Revocation/Expiration of Inactive Permits – Recommended revoking inactive permits
  - Location of Commercial Cannabis Businesses—Proximity to Sensitive Uses - Recommended addressing inactive permits before expanding available sites / Concerns raised with compatibility
- Staff will be moving in the direction as described above
- Subcommittee will be meet again in the next 90 days

# Conclusions

- The Salinas cannabis industry has demonstrated sustainable profitability and regulatory compliance, but requires many staff resources
- The City is covering most of its costs with required monitoring and permit fees
- Updates to the Municipal Code and permitting process could improve transparency, consistency, and create a more streamlined process
- Prevention: The City is preparing a plan to release a Request for Proposal (RFP) regarding prevention

# The Cannabis Industry

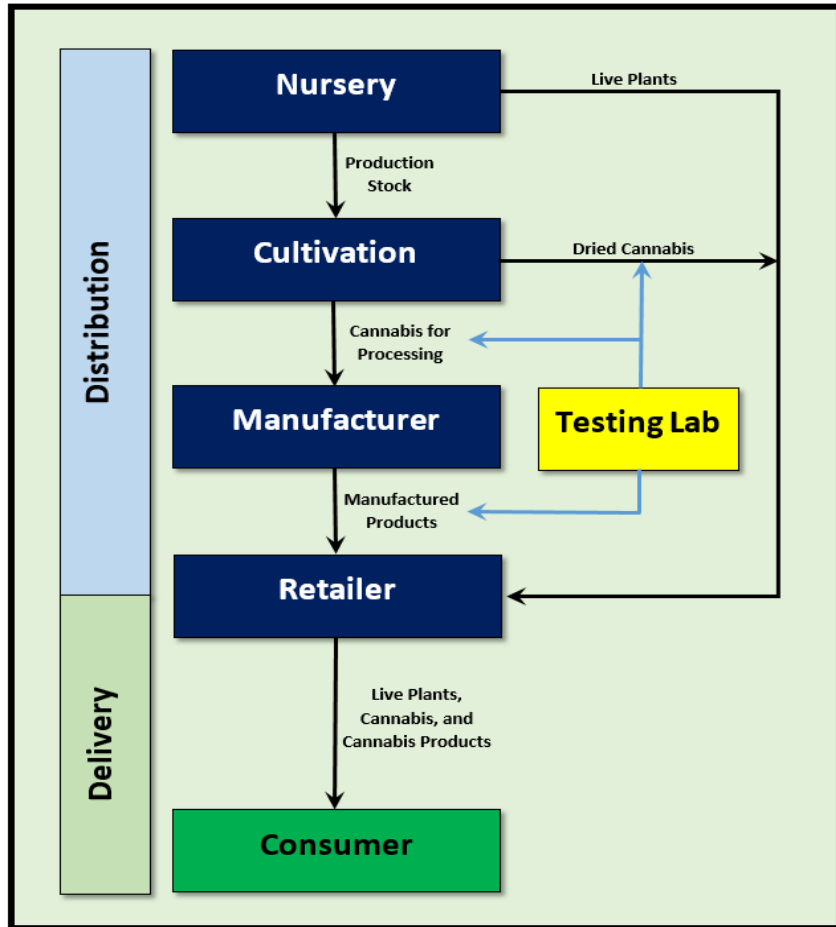


## Nursery

- 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

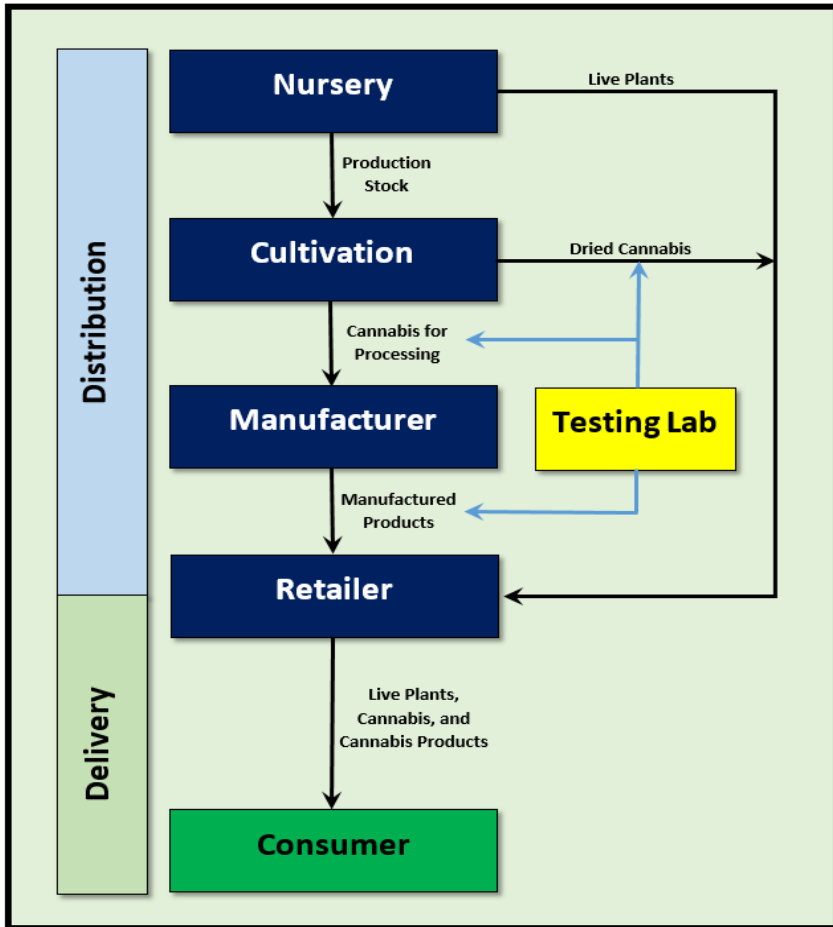


## Cultivation

- 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

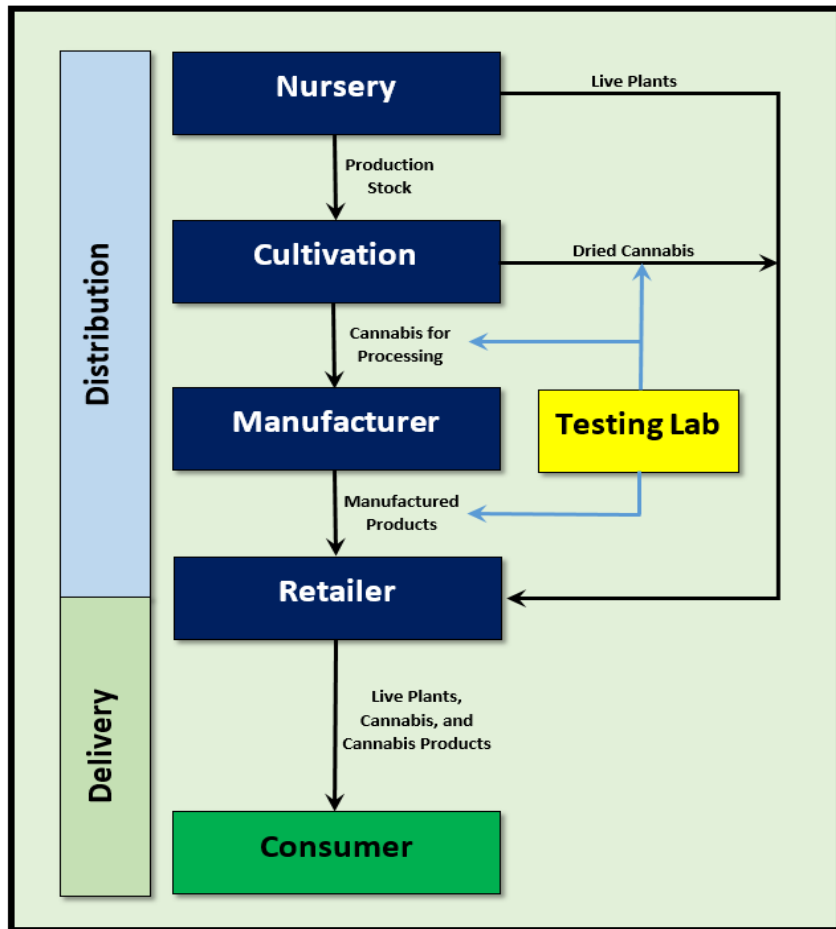


## Manufacturer

- 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

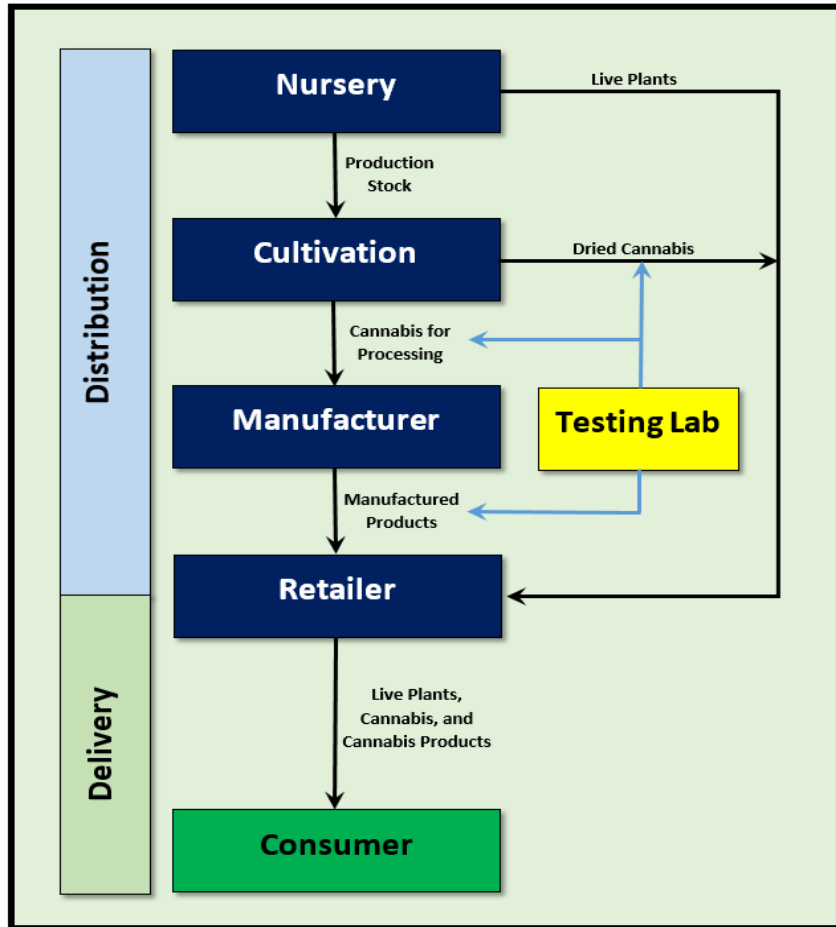


## Retailer (Dispensary)

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



# The Cannabis Industry

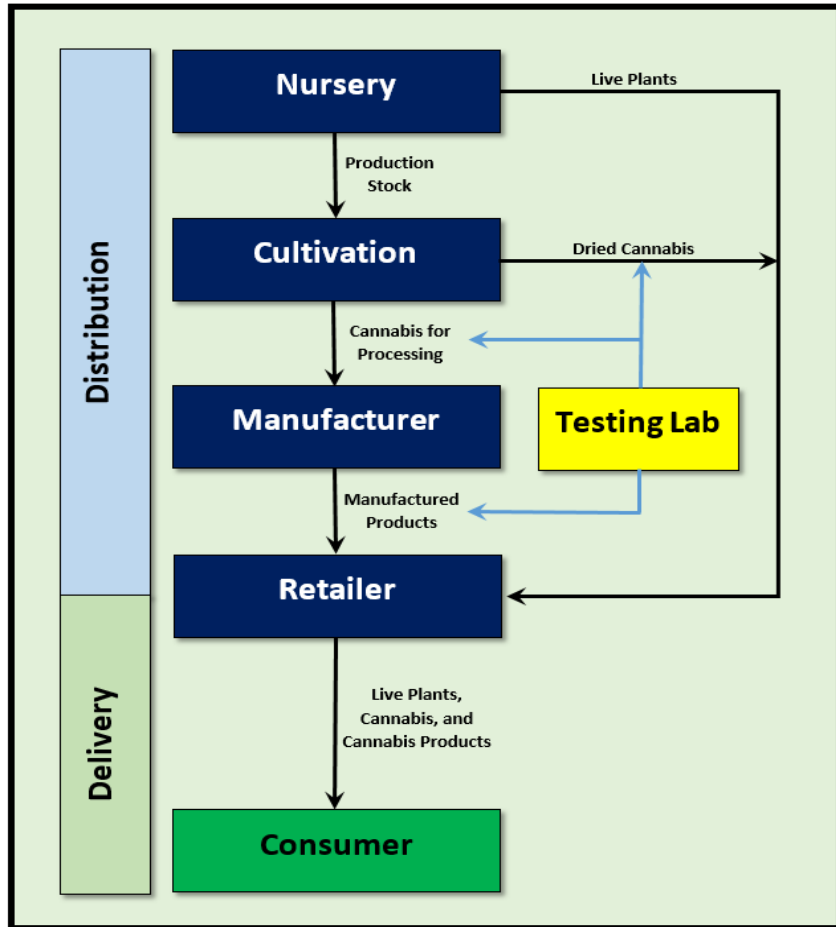


## Retailer (Delivery)

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



# The Cannabis Industry

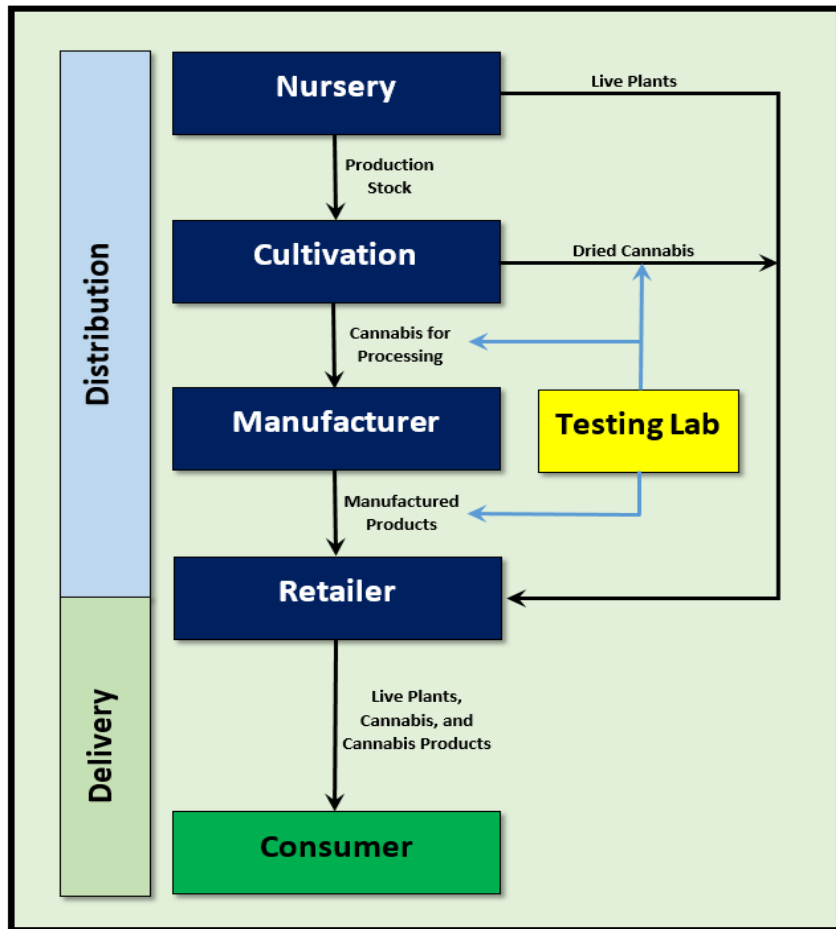


## Distribution

- 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

