

# Cannabis Advisory Group: Economic Vitality Committee Report, June 2019

*The Sonoma County Cannabis Advisory Group formed three committees in 2019; State Alignment, Community Compatibility, and Economic Vitality. The following discussions relate to increasing the Economic Vitality of Sonoma County's Cannabis Program, which have taken place at Cannabis Advisory Group (CAG) meetings over the last year. A visionary exercise took place the CAG meeting which took place on December 12th of 2018 and are included as policy recommendations related to Economic Vitality (A.) discussions notes from April 24th's CAG meeting are also included (B), as well as recommendations from the Economic Impact Report (C.), which was released in December of 2018 by, Sustaining Technologies, LLC, and Economic Forensics and Analytics, LLC. The final section (D.) outlines discussions that took place between members of the Economic Vitality Committee.*

*The CAG encourages the Sonoma County Ad Hoc to consider some of these policy recommendations as they move forward with Part 2 of Cannabis Ordinance amendments.*

*Goals for the County;*

*Streamline the Application Process*

*Increase Tax and Permit Revenue*

*Find solutions for small companies to afford to participate*

## Members of Committee

Dona Frank

Brantly Richardson

Sarah Shrader

## A. Recommendations for Economic Vitality from CAG Meeting December 12, 2018

### Support Local and Cottage Businesses

1. Showcase successful local operations to dispel concerns & encourage leading by example

2. Ensure equitable opportunities exist for all operators throughout commercial cannabis supply chain
3. Utilize local data on permitted operations to better direct future efforts & policy decisions
4. Incentivize local food sheds
5. Remove barriers to and incentivize smaller-scale and specialty cultivation
6. Develop plan to integrate commercial cannabis w/ existing property uses

## Increase Cannabis Tax Revenue

1. Showcase successful local operations to dispel concerns & lead by example
2. Ensure equitable opportunities exist for all operators throughout commercial cannabis supply chain
3. Utilize local data on permitted operations to direct future efforts
4. Support and encourage cannabis events and tourism
5. Embrace and encourage cannabis businesses the same as any other

## Provide Equitable and Streamlined Permit Process

1. Develop standard criteria/expectations for application processing and supporting materials required
2. Provide more information on process, submittals, costs and timeline at the front-end of the application process
3. Provide sufficient staffing for timely permit processing
4. Encourage proactive neighborhood engagement prior to application submittal
5. Ensure presence of adequately qualified staff member(s) for review/analysis of technical studies required by applicants
6. Develop minimum/maximum thresholds for impacts and mitigations
7. Process and review cannabis permits w/ same criteria and level of scrutiny as comparable non-cannabis permits

## B. Recommendations for Economic Vitality at April 24th 2019 CAG Meeting

1. Applying for State funding for Equity & Research
2. Tax breaks for small businesses, or tax thresholds
3. Unfair market competition between regulated cannabis products and widely available unregulated Hemp CBD products.
4. Agricultural Incentives for cannabis farmers who cultivate other crops

## C. Recommendations from Economic Impact Report

1. Public policy should focus on incentives for conversion of current illegal businesses, enhancing the hedgers and wait-and-see possibilities for conversion by reducing tax rates and compliance costs;
2. Public costs exist for enforcement and compliance in the legal environment and to enforce laws against continued, illegal activity;
3. Provide entrepreneurship training and support for business conversions;
4. Centralize distribution and use of local product such that benefits can be maximized across county economy;
5. Make provisions for local processing of plant material into saleable flower and supply for manufacturers to make concentrates;
6. Support cannabis tourism through Sonoma County Tourism;
7. Create a long-term vision for development of the cannabis industry in Sonoma County.

## Additional Points of Interest from Economic Impact Report

8. The value of cannabis will increase once it is a Federally legal product, available for export.
9. Illegal cannabis has no taxes, and has less cost for purchase. Legal cannabis needs to be comparative price or less than illegal cannabis to incentivise participation in the legal market.
10. Selling locally sourced products at retail reduce “leakage” of finances to nearby cities or counties.
11. Consumers seek an educational experience with cannabis, similar to wine tasting

## D. Additional Discussions by Members of the CAG’s Economic Vitality Committee

### Small Business Development & Growth

1. Tax reductions for small businesses, as lower percentages, tax payment plans, or tax thresholds for new companies, and businesses lower revenue.

2. Agricultural diversity, incentives for cannabis farmers who cultivate other crops. This encourages existing agricultural farmers to participate in cannabis activities, and encourages cannabis cultivators to support local agricultural industry.
3. Implementing an Equity Program, to reduce permit fees, or creating loan opportunities could help lower the barriers of entry for Equity Qualified Applicants.

## Community Investment Grants, State funding for Equity Implementation

*Bureau of Cannabis Control has announced that cities and counties can apply for state funding, through Community Investment Grants. These programs are implemented by local jurisdictions to help individuals that have been impacted by the War on Drugs. City and County's have wide discretion as to how they want to implement Equity Programs. Using State funding to offer loans to Equity Qualified Applicants would help companies who cannot afford to participate in the permitting process. Below are some of the potential conditions that may be considered to be a Qualified Equity Applicant.*

Potential Equity Qualifiers, 3 of 7 would be necessary for Equity status:

1. Previous arrest, raid, or charge of cannabis in Sonoma County
2. Parent, or legal guardian arrested for drug charges
3. 10 years residency in Sonoma County
4. Applicant, their parent, or their child attended 5 years at a school located in a Sonoma County School District.
5. Previous cultivators who were in compliance with Prop 215, & SB420
6. Earned less than 80% of the median income of Sonoma County, the year prior to application (2017, median income was \$80,409)
7. United States Military Veteran

## Affordability of Medical Cannabis:

1. The cost of permits and taxes, has increased the cost of cannabis for legal consumers.
2. Donated cannabis should not be taxed (SB 34).
3. Cannabis has been shown to help reduce opiate addictions, having affordable or free cannabis available instead of opiates could help prevent and treat addictions.
4. Incentives should be offered to businesses, to encourage companies to donate cannabis to patients in financial need.
5. Caregiver or research garden's could produce affordable cannabis outside the commercial market and be available to low income cannabis patients and senior cannabis users.

## Unfair Market Competition:

1. Widely available unregulated Hemp CBD products
2. Unregulated Delivery Services
3. Unpermitted cultivation
4. Overproduction from other counties
5. Unlicensed Events
6. Unfair market competition will continue to thrive, as long as it more affordable to the consumer to participate in an unregulated market

## Increasing the Value of Sonoma Grown Cannabis

1. Appellation designations in Northern California (AB 858)
2. National Export of Cannabis Product
3. International Export of Cannabis Product

## Potential Concerns to Consider for Future Policy Developments:

1. Over-production of Cannabis from other Jurisdictions
2. New cannabis uses including tourism should not impact existing residential use

## Neighborhood Groups' Comments (on Concerns listed above)

**1.** A significant problem that the industry is experiencing is **overproduction**. Reports last March indicated that approximately 9 million pounds of legal marijuana will be produced in California in a year's time. However, the market in California will only support 2 million pounds in sales. In time, even if only half of the current applicants have their license applications processed and approved by the State, over production will become a reality. Public policy should focus on aligning the amount of production with the anticipated consumption in California. (Oregon is an example of the problem created when production exceeds consumption. (See articles below)

Cannabis is unique in that an alternative illegal market exists that can absorb excess. This further imperils the viability of the legal market.

A more rational approach in the county would be to discourage more growers by limiting the number of licenses granted. The industry should encourage growers to develop a relationship with manufacturers and distributors to insure they have a confirmed purchaser for their product.

If the current excise tax rate is reduced, which supposedly would encourage more growers to come out of the unregulated market, it would likely increase the amount of product available to the legal market. This would increase the potential for excess production even more.

Possible questions for discussion: What is the current county approach to abating illegal grows? Are there any left in Sonoma County to speak of? What is the source of unregulated weed available in Sonoma County? Would it be helpful if the county reinstated illegal cannabis as a criminal rather than civil infraction? How are they identified...complaints filed, drone searches, satellite images?

**2.** A second item concerns **cannabis tourism**. This should not occur until the county has figured out how to ameliorate the current problem with winery tourism's negative impact on rural neighborhoods. The idea that wineries aren't economically viable without the ability to become hospitality and event centers is a big mistake and shouldn't be repeated with cannabis. If cannabis growers can't be profitable from sales of their product, then they don't have a valid business plan and shouldn't be granted permits in the first place.

There is no objection to large scale events, like the Emerald Cup, which are restricted to one location and do not impact the rural neighborhood environment over a continuing period of time.

**3.** For individual operators interested in entering the industry, **showcasing** successful cannabis operations that don't have negative impacts on adjacent or nearby neighbors is a good idea. Potential operators should also be fully informed as to those activities or arrangements that will bring opposition from nearby residents. No taxpayer funds should be used for such showcasing. The industry public relations arm should pay for this activity.

## Article References:

The world's largest pot farms, and how Santa Barbara opened the door:

<https://www.latimes.com/local/california/la-me-santa-barbara-pot-grows-20190612-htmllstory.html>

Too much legal marijuana: Last year's harvest alone may give Oregon a pot surplus of more than 1 billion joints: <https://www.chicagotribune.com/business/ct-biz-oregon-too-much-marijuana-20190531-story.html>

Oregon preparing for possible interstate weed Commerce:

<https://www.apnews.com/d760929944034e72a294086bf393640f>

Green Growth Brands Surpasses 50 Seventh Sense CBD Shops Open in Four Months:

<https://www.newcannabisventures.com/green-growth-brands-surpasses-50-seventh-sense-cbd-shops-open-in-four-months/>