Counties & Cannabis: How to Move Forward in 2022

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Beau Whitney, Founder & CEO
Whitney Economics

Dustin McDonald, Founder & Partner
Square Root Group
State Policy Reforms Timeline

- **1996**: Voters Approve Prop 215: Collective Model
- **2015**: Legislature & Governor Authorize Commercial Medical Cannabis Supply Chain: MMRSA
- **2016**: Voters Approve Prop 64: Adult-Use Access & Supply Chain
- **2017**: Legislature & Governor Merge MMRSA & Prop 64: MAUCRSA
- **2018**: Adult-Use Sales Begin
- **2019**: • Local Governments Sue BCC - Delivery
- **2020**: • Legislature Attempts Tax Reduction, Retail Expansion, Illegal Market Cleanup
- **2021**: • State Increases Enforcement, Encourages Local Cannabis Licensing

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- • Local Governments Sue BCC - Delivery
- • Legislature Considers Tax Reform & Retail Expansion
- • State Grants to Local Governments

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**2020:**
- • State Increases Enforcement, Merges Reg Agencies
- • State Grants to Local Governments

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- • Legislature Attempts Tax Reduction, Retail Expansion, Illegal Market Cleanup
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Local Policy Challenge Areas

- Zoning and Land-Use
- Revenue and Tax
- Licensing
Mission of State Tax Regime

How fee amounts were set

State law requires the cannabis fees to:

- Cover DCC’s costs to provide oversight for the industry
- Be scaled so that larger businesses pay more

The application and license fees are based on the findings of economists who studied the cannabis industry in California and recommended fee amounts.
## Legal Sales Under Performance

### Sacramento . . . We Have a Problem

<table>
<thead>
<tr>
<th>Legal Sales ($ Billions)</th>
<th>2020</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>TAM</td>
<td>$11.82</td>
<td>$11.87</td>
</tr>
<tr>
<td>Sales</td>
<td>$4.10</td>
<td>$5.17</td>
</tr>
<tr>
<td>Typical/Should Be</td>
<td>$7.09</td>
<td>$8.90</td>
</tr>
<tr>
<td>Delta</td>
<td>$2.99</td>
<td>$3.73</td>
</tr>
</tbody>
</table>

Legal Sales: CA: 43%, CO: 95%, OR: 85%, WA: 75%

Conversions correlated to tax rates
California Operators Under Duress

The heavy burden of taxes, fee and compliance costs are impacting California cannabis operators.

The lack of profitability forces tough decisions, including returning to the illicit channels, or selling out to larger firms.

Lack of profitability disproportionately impacts small operators, particularly women and minority owned business.

Los Angeles-based Global Go Analytics estimates California’s illicit cannabis market generates $8 billion in annual sales (2021).

Whitney Economics Estimates illicit sales were $6.7 billion in 2021

State Cannabis Tax/Fee Authority

Ranges Based on GROSS Sales
(Small Foot Print to Large, Low Revenue to High)

- Cultivation: $39.00 (Small) - $1.40 (Large) / sq ft
- Processing: 1.5% (Low revenue) - 0.50% (High)
- Distribution: 0.60% (Low) - 0.26% (High)
- Retail: 1.10% (Low) - 0.76% (High)

Purpose of taxation: Incentivize someone to do something more or create a policy to encourage to do something less
State Fees Higher on Small Businesses

In almost every instance, fees favor large businesses over small.

In an environment where literally every percentage can make the difference between profitability and closure.

Why punish Labs and Retail, they are the most important part of the value chain?

### Lab License Fee Summary

<table>
<thead>
<tr>
<th>Gross annual revenue</th>
<th>Application fee</th>
<th>License fee</th>
<th>Revenue Low</th>
<th>Revenue High</th>
<th>Fee for Low</th>
<th>Fee For High</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than or equal to $160,000</td>
<td>$1,000</td>
<td>$3,000</td>
<td>$160,000</td>
<td>$320,000</td>
<td>3.75%</td>
<td>1.88%</td>
</tr>
<tr>
<td>$160,001 to $320,000</td>
<td>$1,000</td>
<td>$6,000</td>
<td>$320,000</td>
<td>$480,000</td>
<td>2.50%</td>
<td>1.67%</td>
</tr>
<tr>
<td>$320,001 to $480,000</td>
<td>$1,000</td>
<td>$8,000</td>
<td>$480,000</td>
<td>$640,000</td>
<td>2.10%</td>
<td>1.47%</td>
</tr>
<tr>
<td>$480,001 to $800,000</td>
<td>$1,000</td>
<td>$20,000</td>
<td>$800,000</td>
<td>$1,200,000</td>
<td>2.50%</td>
<td>1.67%</td>
</tr>
<tr>
<td>$800,001 to $1,200,000</td>
<td>$1,000</td>
<td>$20,000</td>
<td>$1,200,000</td>
<td>$2,000,000</td>
<td>2.67%</td>
<td>1.60%</td>
</tr>
<tr>
<td>$1,200,001 to $2,000,000</td>
<td>$1,000</td>
<td>$32,000</td>
<td>$2,000,000</td>
<td>$3,000,000</td>
<td>2.40%</td>
<td>1.71%</td>
</tr>
<tr>
<td>$2,000,001 to $3,000,000</td>
<td>$1,000</td>
<td>$48,000</td>
<td>$3,000,000</td>
<td>$4,000,000</td>
<td>2.57%</td>
<td>1.64%</td>
</tr>
<tr>
<td>$3,000,001 to $4,000,000</td>
<td>$1,000</td>
<td>$72,000</td>
<td>$4,000,000</td>
<td>$5,000,000</td>
<td>2.55%</td>
<td>1.60%</td>
</tr>
<tr>
<td>More than $4,000,000</td>
<td>$1,000</td>
<td>$112,000</td>
<td>$5,000,000</td>
<td>$7,500,000</td>
<td>2.55%</td>
<td>1.60%</td>
</tr>
</tbody>
</table>

### Retail License Fee Summary

<table>
<thead>
<tr>
<th>Gross annual revenue</th>
<th>Application fee</th>
<th>License fee</th>
<th>Revenue Low</th>
<th>Revenue High</th>
<th>Fee for Low</th>
<th>Fee For High</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than or equal to $500,000</td>
<td>$1,000</td>
<td>$2,500</td>
<td>$500,000</td>
<td>$750,000</td>
<td>1.10%</td>
<td>0.73%</td>
</tr>
<tr>
<td>$500,001 to $750,000</td>
<td>$1,000</td>
<td>$5,500</td>
<td>$750,000</td>
<td>$1,000,000</td>
<td>1.00%</td>
<td>0.75%</td>
</tr>
<tr>
<td>$750,001 to $1,000,000</td>
<td>$1,000</td>
<td>$7,500</td>
<td>$1,000,000</td>
<td>$1,500,000</td>
<td>1.10%</td>
<td>0.75%</td>
</tr>
<tr>
<td>$1,000,001 to $1,500,000</td>
<td>$1,000</td>
<td>$11,000</td>
<td>$1,500,000</td>
<td>$2,000,000</td>
<td>0.97%</td>
<td>0.73%</td>
</tr>
<tr>
<td>$1,500,001 to $2,000,000</td>
<td>$1,000</td>
<td>$14,500</td>
<td>$2,000,000</td>
<td>$3,000,000</td>
<td>1.13%</td>
<td>0.75%</td>
</tr>
<tr>
<td>$2,000,001 to $3,000,000</td>
<td>$1,000</td>
<td>$22,500</td>
<td>$3,000,000</td>
<td>$4,000,000</td>
<td>1.02%</td>
<td>0.76%</td>
</tr>
<tr>
<td>$3,000,001 to $4,000,000</td>
<td>$1,000</td>
<td>$30,000</td>
<td>$4,000,000</td>
<td>$5,000,000</td>
<td>1.16%</td>
<td>0.78%</td>
</tr>
<tr>
<td>$4,000,001 to $6,000,000</td>
<td>$1,000</td>
<td>$46,500</td>
<td>$5,000,000</td>
<td>$6,000,000</td>
<td>1.16%</td>
<td>0.78%</td>
</tr>
<tr>
<td>$6,000,001 to $7,500,000</td>
<td>$1,000</td>
<td>$57,000</td>
<td>$6,000,000</td>
<td>$7,500,000</td>
<td>0.95%</td>
<td>0.76%</td>
</tr>
<tr>
<td>More than $7.5 million</td>
<td>$1,000</td>
<td>$96,000</td>
<td>$7,500,000</td>
<td>$9,000,000</td>
<td>1.28%</td>
<td>0.80%</td>
</tr>
</tbody>
</table>
State Fees are Higher on Small Businesses

In almost every instance under current tax regime, fees favor large businesses over small.

Processors support roughly 40%-45% of the total supply chain.

Distributors and Wholesalers collect the taxes.
State Fees are Higher on Small Businesses

Large outdoor fee favors smaller indoor on a per square footage basis

Output is higher for indoor, so cultivation tax hurts indoor more than outdoor

<table>
<thead>
<tr>
<th>Cultivation license type</th>
<th>Application fee</th>
<th>License fee</th>
<th>Plants</th>
<th>Min Sq Ft</th>
<th>Max Sq Ft</th>
<th>fee/sq ft</th>
<th>fee/sq ft</th>
</tr>
</thead>
<tbody>
<tr>
<td>Specialty cottage outdoor</td>
<td>$135</td>
<td>$1,205</td>
<td>25</td>
<td>500</td>
<td>50</td>
<td>$3.66</td>
<td></td>
</tr>
<tr>
<td>Specialty cottage indoor</td>
<td>$205</td>
<td>$1,830</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Specialty cottage mixed-light tier 1</td>
<td>$340</td>
<td>$3,035</td>
<td>2,500</td>
<td>5,000</td>
<td></td>
<td>$1.21</td>
<td></td>
</tr>
<tr>
<td>Specialty cottage mixed-light tier 2</td>
<td>$580</td>
<td>$5,200</td>
<td></td>
<td></td>
<td></td>
<td>$2.08</td>
<td></td>
</tr>
<tr>
<td>Specialty outdoor</td>
<td>$270</td>
<td>$2,410</td>
<td>50</td>
<td>0</td>
<td></td>
<td>$0.48</td>
<td></td>
</tr>
<tr>
<td>Specialty indoor</td>
<td>$2,170</td>
<td>$19,540</td>
<td>501</td>
<td>5,000</td>
<td></td>
<td>$39.00</td>
<td>$3.91</td>
</tr>
<tr>
<td>Specialty mixed-light tier 1</td>
<td>$655</td>
<td>$5,900</td>
<td>2,501</td>
<td>5,000</td>
<td></td>
<td>$2.36</td>
<td>$1.18</td>
</tr>
<tr>
<td>Specialty mixed-light tier 2</td>
<td>$1,125</td>
<td>$10,120</td>
<td>2,501</td>
<td>5,000</td>
<td></td>
<td>$4.05</td>
<td>$2.02</td>
</tr>
<tr>
<td>Small outdoor</td>
<td>$535</td>
<td>$4,820</td>
<td>5,001</td>
<td>10,000</td>
<td></td>
<td>$0.96</td>
<td>$0.48</td>
</tr>
<tr>
<td>Small indoor</td>
<td>$3,935</td>
<td>$35,410</td>
<td>5,001</td>
<td>10,000</td>
<td></td>
<td>$7.08</td>
<td>$3.54</td>
</tr>
<tr>
<td>Small mixed-light tier 1</td>
<td>$1,310</td>
<td>$11,800</td>
<td>5,001</td>
<td>10,000</td>
<td></td>
<td>$2.36</td>
<td>$1.18</td>
</tr>
<tr>
<td>Small mixed-light tier 2</td>
<td>$2,250</td>
<td>$20,235</td>
<td>5,001</td>
<td>10,000</td>
<td></td>
<td>$4.05</td>
<td>$2.02</td>
</tr>
<tr>
<td>Medium outdoor</td>
<td>$1,555</td>
<td>$13,990</td>
<td>10,000</td>
<td>43,500</td>
<td></td>
<td>$1.40</td>
<td>$0.32</td>
</tr>
<tr>
<td>Medium indoor</td>
<td>$8,655</td>
<td>$77,905</td>
<td>10,001</td>
<td>22,000</td>
<td></td>
<td>$7.79</td>
<td>$3.54</td>
</tr>
<tr>
<td>Medium mixed-light tier 1</td>
<td>$2,885</td>
<td>$25,970</td>
<td>10,001</td>
<td>22,000</td>
<td></td>
<td>$2.60</td>
<td>$1.18</td>
</tr>
<tr>
<td>Medium mixed-light tier 2</td>
<td>$4,945</td>
<td>$44,517</td>
<td>10,001</td>
<td>22,000</td>
<td></td>
<td>$4.45</td>
<td>$2.02</td>
</tr>
</tbody>
</table>
**Impact of Cannabis Harvest Tax Increase**

Cultivation Tax Rate Increase – Beginning January 1, 2022, the cultivation tax rates reflect an adjustment for inflation as required by the Cannabis Tax Law. The adjusted rates for each category shown below will be reflected on the monthly and quarterly cannabis tax returns beginning January 1, 2022.

<table>
<thead>
<tr>
<th>Cannabis Category</th>
<th>Date Effective 1/1/2020-12/31/2021</th>
<th>New Rate Effective 1/1/2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>Flowers per dry-weight ounce</td>
<td>$9.65</td>
<td>$10.08</td>
</tr>
<tr>
<td>Leaves per dry-weight ounce</td>
<td>$2.87</td>
<td>$3.00</td>
</tr>
<tr>
<td>Fresh cannabis plant per ounce</td>
<td>$1.35</td>
<td>$1.41</td>
</tr>
</tbody>
</table>

California produces roughly 2.6M lbs of cannabis each year. This is a tax increase of $17.7M in 2022 and $21.7M in 2023.
Impact of Cannabis Harvest Tax Increase

The average cost to produce a gram of cannabis is $0.25 - $0.50/g.

Depending upon cost per pound to produce, this is a cost increase of 5.38% and 10.75%.

Consumers are price sensitive, so this tax increase cannot be passed along to the consumer and must be absorbed by the grower.
Retail Tax and Cost Analysis

- After Product acquisition, labor and federal taxes, there is not much left for anything else
- If sales taxes, payroll taxes and state fees are paid, retail operators are struggling to remain profitable
- In other words,
  - No Rent
  - No Healthcare
  - No Security
  - No Insurance
- Note: This does not include any local fees or taxes
Operator Cost Challenges Beyond Tax & Fees

- **Facility/Property Rental Rate**
  - 30% Markup on Square-Footage for Cannabis Businesses

- **Financing Rates**
  - High Borrowing Costs: Interest Rates in Teens (%) for Most Market Operators
  - 280E

- **Costs in Waiting**
  - Costs Incurred Prior to Receiving Licenses
  - Pace of Local Authorization: Expedite Using Key Lessons to Help Prospective Applicants Save $$$ *(which they will later pay to you in taxes)*

- **Consultant Fees**
  - Higher prices due to risk premiums of doing business on a cash basis (lowers tax revenues)

- CEQA
The range of rates and applications of California local taxes on cannabis businesses is wide and diverse. On average local governments impose a tax of between 27% and 37.5% on each $100 in sales.

<table>
<thead>
<tr>
<th>Tax Type</th>
<th>Tax Range</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sq Ft Tax</td>
<td>$1 - $30/sq ft</td>
</tr>
<tr>
<td>Gross Receipts Tax</td>
<td>0.5% - 18%</td>
</tr>
<tr>
<td>+ State Excise Tax</td>
<td>15% of the average market price (the wholesale cost plus the &quot;markup&quot; as determined by CDTFA at 80%)</td>
</tr>
</tbody>
</table>

In addition to paying the wholesale cost + markup + excise tax *(which is passed onto consumers)*, consumers also pay sales tax (8.5%) and local cannabis business tax (10%). To understand the excise tax visit [https://www.cdtfa.ca.gov/industry/cannabis.htm#Facts](https://www.cdtfa.ca.gov/industry/cannabis.htm#Facts)
Local Cannabis Tax Authority

On Average, Local Taxes Impose Between 27% - 37.5% on Each $100 in Sales

$100 in pre-tax, legal weed becomes:

City levies' effect on price:

- $127.00, Weed, CA
- $130.70, Shasta Lake
- $129.50, Yolo County
- $127.54, West Sacramento
- $131.13, Sacramento
- $135.75, Santa Rosa
- $133.20, Oakland
- $125.63, Unincorporated Alameda County
- $133.98, Modesto
- $136.69, San Jose
- $129.14, Fresno
- $130.73, Avila Beach
- $138.51, Hollywood
- $136.29, West Hollywood
- $138.63, Los Angeles
- $136.93, Long Beach
- $135.68, Santa Ana
- $133.82, San Diego

Leafly

www.whitneyeconomics.com
www.squarerootgroup.com
Effective Tax: Simple Low Case

$9.25/oz State Excise (~3.5%)

Local 3% Gross Tax (6.6%)

Sale AUMA 15%, Sales Tax @7.5% min and 5% city excise tax (35.9%)
Effective Tax: Middle Case

- $9.25/oz State Excise (~3.5%)
- Local 3% Gross Tax (Cultivator) (6.6%)
- Local 3% Gross Tax Processor (9.8%)
- Sale AUMA 15%, Sales Tax @9% and 6% city excise tax e.g. L.A. cities (42.7%)
Effective Tax: High Case

$9.25/oz State Excise (~3.5%)

Local 6% Gross Tax (Cultivator) (9.7%)

Local 10% Gross Tax (Processor) (20.6%)

Local 5% Gross Tax (Filler) (26.7%)

[20% Markup Distributor (alcohol is closer to 30%)]

Sale AUMA 15%, Sales Tax @9% and City excise @6% e.g. L.A. cities (97.7% with and 64.7% without distributor)
Goal of optimizing your tax approach to cannabis business licensing:

1. Improve public health and safety,
2. Crowd-out and subdue the illegal market and
3. Generate economic activity and growth

The steps to reaching this goals include:

1. Build policies that incentivize consumers to patronize the legal marketplace
2. Organize your policy approach using reliable estimates of the size of your cannabis business and consumer/patient population
3. Develop and implement a phased-plan to build your local cannabis marketplace that is communicated clearly to the public
Revenue & Tax Approaches

Step 1. Estimate TAM for size of population of prospective licensees and consumers/patients
  a) Total Population x Usage Rates
  b) Then x Spending Per Capita

Step 2. Migrate consumers from illegal to legal marketplace
  ● Taxes influence price, prices influence consumer behavior
  ● Elasticity and the impact of consumer conversions
  ● For every 1% reduction in price, 2.1% - 2.4% increase in sales
  ● Implement features that ease costs for consumers (e.g. medical retail licensing, SB 34 programs, community education & awareness campaigns)

Step 3. The market is dynamic. Be flexible, Review and adjust regularly

2021 California Sales
(Legal vs Legacy)

- Legal Sales: 56.4%
- Legacy Sales: 43.6%
**Key Economic Concepts**

**Elasticity of Demand:** For every 1% decrease in price, there is a 2.1% - 2.4% increase in quantity demanded.
- Consumers are extremely price sensitive

**Multiplier Effect** - For every $1 in revenue, there is an additional $2.8 in economic activity
- For perspective, National Parks have a 6x multiplier, Manufacturing has a 2.74x multiplier

**Economic Impact:** Similar to how cannabis had the highest job creation growth rates in the U.S. in 2021, cannabis also has one of the largest multipliers of any other industry.
Reforming Local Tax Regimes

Humboldt County (Tax Reduction): 2/7/22 BoS voted to reduce by 85% the county cultivation tax locally known as Measure S, which previously required a $1-$3-per-square-foot payment, the amount of which was dependent on license type. Now, those fees will be calculated in the same manner, but growers will pay only 15% of the total amount.

Bellflower (Tax Reduction): 10/20 - City reduced manu and distro taxes from 7.5% to 2% and 1% respectively.

Berkeley (Tax Reduction): 2/18 tax rate reduced from 10-5%.

Monterey County (Tax Reduction): Industrywide cultivation tax reduction, including eliminating automatic increases on all taxes and doing away with the distribution tax entirely.

Sonoma County & Lake County (Tax Collection Delay): Postponed collection of taxes and dismissal of any late fees that would ordinarily be incurred.

City of San Diego (Tax Reduction): 2/20 - Voted to reduce the manufacturing and cultivation tax from 8% to 2%, effective May 1.

CCSF (Tax Reduction): 12/21 - Approved a second one-year suspension of the city’s marijuana business tax through 2023.

San Jose (Tax Reduction): 7/2019 - Reduced the flat-rate taxes of 10% to 4% for cultivation, 3% for manufacturing, 2% distribution and 0% for testing.
## Cannabis Business Licensing

<table>
<thead>
<tr>
<th>License Type</th>
<th>Number Issued</th>
<th>Versions of License Category</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cultivation</td>
<td>4,762</td>
<td>14</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>864</td>
<td>6</td>
</tr>
<tr>
<td>Laboratory</td>
<td>40</td>
<td>1</td>
</tr>
<tr>
<td>Distribution</td>
<td>1,191</td>
<td>3</td>
</tr>
<tr>
<td>Retail</td>
<td>1,031</td>
<td>3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>7,888</strong></td>
<td></td>
</tr>
</tbody>
</table>
Licensing Challenge

Proportional Licensing Imbalance:
California state and local governments have licensed a far greater number of supply-side vs demand-side cannabis businesses = larger proportion of unlicensed vs licensed retailers

<table>
<thead>
<tr>
<th>State</th>
<th>Cultivation</th>
<th>Manufacturing</th>
<th>Retail</th>
</tr>
</thead>
<tbody>
<tr>
<td>CA</td>
<td>4762</td>
<td>864</td>
<td>1031</td>
</tr>
<tr>
<td>CO</td>
<td>1279</td>
<td>548</td>
<td>1072</td>
</tr>
<tr>
<td>WA</td>
<td>1091</td>
<td>1176</td>
<td>484</td>
</tr>
<tr>
<td>OR</td>
<td>1388</td>
<td>305</td>
<td>760</td>
</tr>
</tbody>
</table>
## Local Impacts

### Effect of Current Licensing Behavior on State & Local Cannabis Policy Reform Objectives

**Effect on Government:** Increase in law enforcement budget requirements + loss of prospective revenue

**Effect on Community/Consumers/Patients:** Decreased public safety and health, no/limited legal access for patients (*parents, children, siblings, bosses, colleagues, police, fire, ems, veterans*). Patients forced to buy medicine that has not undergone state-mandated product safety testing with unlicensed operators held to no state safety requirements.

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The Next Cliff: End of Provisional Licensing

Over 70% of Legal Market Operates Using Provisional Licenses

Under the 2021 Cannabis Trailer Bill (AB 141/SB 160) 3/31/22 Was the Last Day to Submit Applications for Provisional Licenses (with few exceptions)

DCC Will Cease Issuing Provisionals As of 6/30/22.

By 1/1/26 All Licensees Will Be Required to Operate Under an Annual License

Increased Pressure on Market Organization: Market Clearing & Tightening
Licensing Recommendations

1) Estimate size of illegal market: Operators and Consumers

2) Utilize Flexible and Phased Approach
   a) If Capped Licensing Regime
      - Models Have Not Been Optimized by CA Local Govts
      - Must Include Triggers to Expand Licensing Based on Data
        (e.g. triggers requiring jurisdiction to reevaluate size of legal
        and illegal marketplaces, size of consumer and patient
        population/volume of demand)

1) Think about licensing retail in proportion to pharmacies and think about juxtaposition of your jurisdiction’s number of alcohol retailers (to include grocery and pharmacy access)
New Frontiers In Licensing

Colocated Facilities
Green Network, Santa Ana

Storefront Retail in Shopping Centers
Union City, Moreno Valley

Delivery-Only Retail
La Habra

Business/Industrial parks
Adelanto (420 Park)
Richmond (PowerPlant)
Zoning & Land-Use Considerations

- Evaluate size of illegal market: Providers & Consumers
- Identify zones where cannabis business activity will be permitted (If retail - Keep consumer access top of mind)
- Determine authorization process and approach (e.g. overlay vs creation of new zone vs general plan update)
- Consider average square footage requirements for all cannabis business licensing categories to be authorized
- Ensure adequate availability of facility types exist to support volume of cannabis business licensing categories you plan to authorize
- Buffering/Sensitive Uses (e.g. distance from a school, places of worship)
- Increasing Density? Measure building edge-to-building edge vs to property line

**Caution:** Once the zoning district is identified buffering requirements will further restrict available business locations. Dedicate sufficient resources to ensure adequate business facility space exists to accommodate volume of cannabis business you plan to license in each phase of policy reform.
Zoning & Land-Use: Traditional Process

Determine Authorizing Approach: Traditional vs Development Agreement

Traditional: Legislative Ordinance Authorizing Cannabis Business Activity in Designated Zones

- City Council/County Supervisors & Voters: Licensing Model
- Planning Commission & Voters: Overlay, New Zone, General Plan
- City Council/County Supervisors & Voters: Oversight & Tax Measure

- Challenges/Issues:
  - Length of Policy Authorization Process
  - Cost of Staff Resources
  - Cost of External Consulting Expertise
Development Agreements

- Unique planning tool authorized by *California Government Code §65865*
- Voluntary arm’s length contract process between project proponent and city/county governing land uses of a project
- Subject to legislative activity so must be consistent with community values, consistent with all planning policies & community values
- Allows negotiation of concessions/contributions from contracting entity that could not be obtained through traditional conditions of approval
- Historically have been used to authorize creative projects that would not have been allowed under existing zoning regulations

420 Business Park, Adelanto, CA

PowerPlant Park, Contra Costa County, CA
## State Support

### GOBIZ Equity Grants

Awarded to local governments to support cannabis operators harmed by the War on Drugs.

- Assess of cannabis equity needs and creation of cannabis equity programs
- Direct assistance to social equity operators: technical assistance, reduced/waived fees, low or no-interest loans/grants, business location support, recruiting and training help, and business resilience

<table>
<thead>
<tr>
<th></th>
<th>Grants</th>
<th>Equity Program Organization</th>
<th>Direct Equity Operator Support</th>
<th>Total Awarded ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>18</td>
<td>$547K</td>
<td>$14.45M</td>
<td>$14.997M</td>
</tr>
<tr>
<td>2019</td>
<td>16</td>
<td>$1.149M</td>
<td>$28.85M</td>
<td>$29.99M</td>
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</tbody>
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**State Support**

### Local Jurisdiction Assistance Grant Program

One-time grant funding to help Jurisdictions transition cannabis businesses from provisional to annual licenses. Funds are targeted to areas with the highest numbers of provisional licensed businesses. Funding supporting wide range of projects from staff expansion and hiring of consultants to internal process improvement, website design, renewable energy and water protection.

<table>
<thead>
<tr>
<th>2021 Grants</th>
<th>Total Awarded ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>17</td>
<td>$100M</td>
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</tbody>
</table>

### CHP Impaired Driving Grants

Grant funds go beyond impaired driving enforcement efforts; they will be put toward education, training, and outreach in communities throughout the state.

<table>
<thead>
<tr>
<th>2021 Grants</th>
<th>Total Awarded ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>45</td>
<td>$17M</td>
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</table>

<table>
<thead>
<tr>
<th>Uses</th>
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</thead>
<tbody>
<tr>
<td>Toxicology Labs (staff &amp; equipment)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Grants</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>12</td>
<td>$10.6M</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Grants</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>33</td>
<td>$6.36M</td>
</tr>
</tbody>
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# 2022 State Regulatory Focus

## Merging of Regulatory Agencies into Department of Cannabis Control (DCC)

*Detailed in Governor’s 2021 Budget Request and Trailer Bill AB 141 (ends provisional licensing by 2026)*

- **Employees:** 400
- **Annual Budget:** $154.3M

## Objectives

- **Increase Number of Businesses Participating in Legal Market, Ease Licensing Process and Keep Licensed Operators Compliant**

- **Transition Licensees From Provisional to Permanent/Annual Licenses.** As of the time of the 20201 agency merge, California cannabis operators held 8,649 active provisional licenses, which represents more than 75% of all state licenses

- **Eliminate the Illegal Market**

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# State Legislative Update

## Cultivation Tax

<table>
<thead>
<tr>
<th>Bill</th>
<th>sponsoring members</th>
<th>provisions</th>
</tr>
</thead>
</table>
| AB 2506   | Asm Quirk, Asm Lackey | - Would exchange the current cultivation tax (weight-based) for a revenue neutral excise tax increase  
- From 7/1/23 to 7/1/28 would suspend the cultivation tax and discontinue the requirement to adjust for inflation in 2023 and during the suspension period  
- From 7/1/23-7/1/28 would increase the excise tax by a percentage the Dept. of Finance estimates necessary to recapture revenue loss occurring during the suspension |
| AB 2792   | Asm Rubio, Asm Garcia | - From 7/1 122 to 7/1/25 would prohibit the department from marking up the average market price in an arm’s length transaction for purposes of the cannabis excise tax  
- From 7/1 122 to 7/1/25 would reduce the rate of the cannabis excise tax imposed on purchasers in a non-arm’s length transaction to 8%  
- From 7/1 122 to 7/1/25 would suspend the excise tax on cannabis purchasers sold by eligible licensees  
- From 7/1 122 to 7/1/25 would suspend the cultivation tax & discontinue requirement that the department adjust the cultivation tax rate for inflation during the suspension |
| SB 1074   | Sen McGuire, Asm Wood | - Starting 7/1/22 would discontinue the cultivation tax  
- From 7/125 to 7/1/26 would increase the cannabis excise tax by a percentage of the average market price of any retail sale that the Department of Finance estimates necessary to recapture the amount revenue = half the amount that would have been collected pursuant to the current weight-based cultivation tax  
- Effective 7/1/26 cannabis excise tax would be increased by an additional percentage of the average market price of any retail sale the Department of Finance estimates will recapture the amount of revenue = thee amount that would have been collected pursuant to the current weight-based cultivation |
| SB 1281   | Sen Bradford | - Effective 1/1/23 would discontinue cultivation tax, reduce the excise tax to 5%, and remove the mark-up from the definition of average market price in an arm’s length transaction  
- Would remove the requirement for distributors to collect the excise tax from the retailer, and would instead require the cannabis retailer to remit the excise tax to the department |
# State Legislative Update

## Illegal Market Enforcement

<table>
<thead>
<tr>
<th>Bill Number</th>
<th>Sponsor</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>AB 2102</td>
<td>Asm Jones-Sawyer</td>
<td>Would impose civil penalty up to $30k per violation against person who violates prohibition on renting, leasing, or making available a building, room, space, or enclosure for unlawfully manufacturing, distributing, or selling cannabis + authorizes injunctive relief. Each day the violation continues is a separate violation.</td>
</tr>
</tbody>
</table>
| AB 2728     | Asm “Smitty” Smith | Would impose a civil penalty on an unlicensed person engaging in commercial cannabis activity. Fines are:  
- Facilities < 200 plants: Up to $1k/1st violation; Up to $1.5k/2nd violation w/in 1 yr of 1st; Up to $3K/each additional violation w/in 1 year of 1st violation.  
- Facilities > 200 plants: Up to $3k for 1st violation; Up to $6k for 2nd violation w/in 1 year of 1st; Up to $10k for each additional violation w/in 1 year of 1st.  
- Additional Fines: Up to $50/pkg of cannabis product; Up to $50/g of cannabis concentrate; Up to $50/lb of cannabis biomass; Up to $250/lb of cannabis flower. |
| AB 1725     | Asm “Smitty” Smith | Would amend AUMA to increase the punishment to a felony serving 16 months or 2 or 3 years, for anyone over the age of 18 to plant, cultivate, harvest, dry, or process more than 6 marijuana plants without a commercial license.  
Would also impose the same punishment on anyone over 18 but under 21 who plants, cultivates, harvests, dries, or processes less than 6 plants. |
| SB 1426     | Sen Caballero | Would make it a felony to plant, cultivate, harvest, dry, or process more than 6 living cannabis plants, or any part thereof, and where that activity involves theft of groundwater, unauthorized tapping into a water conveyance or storage infrastructure, digging an unpermitted, illegal well, or the pollution of groundwater.  
Would also clarify that causing substantial environmental harm to public resources includes groundwater. |

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**State Legislative Update**

### CEQA Support

<table>
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<th>SB 1148</th>
<th>Sen Laird</th>
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<tr>
<td>Would provide that CEQA does not apply to the issuance of a state license to engage in commercial cannabis activity if:</td>
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<tr>
<td>● The applicant is in compliance with all local ordinances that regulate commercial cannabis activity and if the local jurisdiction has filed a notice of exemption or a notice of determination following the adoption of a negative declaration or certification of an environmental impact report pursuant to CEQA that is specific to the applicant’s commercial cannabis activity or license.</td>
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</tbody>
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www.squerootgroup.com
Thank You

Beau Whitney
Founder & CEO
Whitney Economics

Dustin McDonald
Founder & Partner
Square Root Group

www.whitneyeconomics.com
Beau@whitneyeconomics.com

www.squarerootgroup.com
Dustin@squarerootgroup.com