



City of Pomona

**Impact Analysis of the
Pomona Regulate Cannabis Act of 2018
Pursuant to
Elections Code Section 9212**

September 5, 2018

Prepared by



Elections Code Section 9212 Impact Report

Table of Contents

I.	Introduction	Page 2
II.	Overview of the Act	Page 3
III.	Land Use Analysis	Page 6
IV.	Fiscal Analysis	Page 9
V.	Additional Impacts	Page 12
VI.	Conclusion	Page 18
VII.	Appendix	Page 19
	a. Market Analysis	Page 20
	b. Regulatory Background for California	Page 26
	c. State Tax Considerations	Page 30
	d. General Economic Impacts	Page 32
	e. Land Use Maps	Page 34
	f. References	Page 37

I. Introduction

This impact report is prepared jointly by HdL Companies and City staff at the request by the City Council at its August 6, 2018 Council Meeting to evaluate the impacts of a proposed initiative pursuant to Elections Code section 9212.

On May 15th, 2018, the City of Pomona received an initiative petition entitled “*the Pomona Regulate Cannabis Act of 2018*” (the Act). The Act would amend the Pomona City Code and Pomona Zoning Ordinance to include Industrial Cannabis Overlay Zones and Safe Access Cannabis Overlay Zones, where commercial cannabis businesses would be allowed to operate. The Act also seeks to amend the General Plan with a blanket statement that the Act amends the General Plan and all pertinent Specific Plans. The Act also imposes a tax to partially recover the City’s costs in regulating cannabis businesses by imposing a regulatory tax of \$5.00 per square foot to be imposed on all locations with commercial cannabis operations, including indoor cultivation, manufacturing, testing, distribution and retail sales of both medical and adult use cannabis.

At its meeting on August 6th, the Pomona City Council considered three possible actions allowed under Election Code Section 9212: Adopt the measure outright, submit the initiative to the voters at the next general election, or order a report analyzing the measure’s potential impacts on the community, should it be approved. The Council chose to direct staff to prepare the report, which shall consider the following potential impacts of the initiative:

- 1) Fiscal impact
- 2) Effect on the internal consistency of the City’s general plan and specific plans, including the housing element
- 3) Effect on the use of land, the impact on the availability and location of housing, and the ability of the City to meet its regional housing needs
- 4) Impact on infrastructure such as transportation, schools, parks, and open space, including physical impacts, maintenance costs, and access to funding
- 5) Impact on the community’s ability to attract and retain business and employment.
- 6) Impact on the uses of vacant parcels of land
- 7) Impact on agricultural lands, open space, traffic congestion, existing business districts, and developed areas designated for revitalization
- 8) Any other impacts that may be determined during research regarding the measure

The report will be presented to the Council on or before September 5, 2018, and will be formally presented to Council at the September 10, 2018 City Council Meeting, at which point the Council will then have 10 days in which to decide whether to adopt the Act *as written* or place it on the next general ballot. These two options exist because the petition qualified to be placed on the ballot as it was ultimately determined that the petition received a sufficient number of signatures to be placed on the ballot. Due to legally required election timelines and issues surrounding the counting of valid signatures, the initiative was submitted too late to allow the initiative to be placed on the November 6th, 2018 ballot. The next general election at which this matter could be considered is November 3rd, 2020.

At the August 6, 2018 Council Meeting, the City Council voted to place a cannabis tax measure on the November 6th, 2018 ballot. The City’s proposed cannabis tax is not regulatory in nature, and the proposed initiative is primarily a land use regulation initiative. The two ballot items are not mutually exclusive.

The City requested HdL’s assistance in preparing this report, including a fiscal analysis that includes an estimate of the number, size and gross receipts of each type of cannabis business that may be expected

to locate in the City based on projects from other cities and counties in California for which HdL has worked.

The list of 8 types of impacts to be analyzed can generally be grouped into 3 categories: land use impacts, fiscal impacts, and additional impacts, which includes impacts on City services and infrastructure, and impacts on other businesses and the community at large. The analysis generally follows this grouping, and will also provide a general overview of the current cannabis business market in the Pomona area.

Finally, the Appendix to this report contains legal, regulatory, and tax background information for cannabis regulation in the state, as well as land use maps prepared by City staff.

II. Overview of the Act

The Pomona Regulate Cannabis Act (“the Act”) would amend the City’s Municipal Code, Zoning Code, Specific Plans, and General Plan¹ to establish zones where various types of commercial cannabis businesses would be allowed to locate and operate.

The Act would create two distinct areas where commercial cannabis activity would be allowed: the “Safe Access Cannabis Overlay Zone” (SAC Overlay), consisting of 100 specifically identified parcels in Downtown Pomona generally bounded by Monterey Ave to the North, 3rd Street to the South, Locust Street to the East and Parcels Street to the West; and the Industrial Cannabis Overlay Zone (IC Overlay), which would be applied to all parcels zones M-2 General Industrial. Cannabis cultivation, manufacturing, testing and distribution would be allowed in the IC Overlay. Cannabis retailers, microbusinesses and distributors would be allowed in the SAC Overlay. Cannabis businesses would be prohibited within 600 feet of any school, daycare or youth center, which is the current distancing requirement under State law.

Of the 100 parcels identified in the initiative that would be included within the SAC Overlay designation, after applying the 600’ buffers, only 16 of these would be available for cannabis uses based on the current location of such sensitive uses. Another 3 parcels are eliminated from eligibility due to a variety of current encumbrances, leaving just 13 parcels available in the SAC Overlay. In the IC Overlay, the City has identified 492 separate Assessor Identification Numbers (AINs), none of which appear to be affected by the sensitive use buffers.

Cannabis businesses in both the IC and SAC overlay would be allowed with only a ministerial review (other than Type 6 manufacturing using volatile solvents, which would require a conditional use permit). The means that if an applicant for a commercial cannabis use provides the required minimum amount of documentation, the City would have no discretion to deny or modify the application, or to impose any conditions or mitigations beyond those already existing elsewhere in the City’s land development ordinances. Essentially, such cannabis businesses would be treated the same as any other principally-permitted use in these overlay zones.

The Act proposes that the number of permits available for cannabis retailers would be limited to one per every 25,000 residents, as estimated by the California Department of Finance. With a current estimated population of 155,687ⁱ, this would allow for no more than 6 retailers. As population increases or decreases the number of allowed permits for retailers would also vary. However, should a retailer be issued a permit and the City population decreases, there is no provision to remove a previously entitled business. The Act imposes no limit on the number of commercial cannabis businesses in the IC Overlay in the M-2 zone.

The Act states that it would *“Impose fees and taxes to cover the cost to the City of regulating cannabis businesses in an amount sufficient for the City to recover its related costs, and to help mitigate against possible adverse secondary effects”* (Section 3; Purpose and Intent). However, the only fee that is specified is an application fee of \$250 (Sec. .720.090 Application Fee). It is unclear how this figure was derived, but it is unlikely to be adequate to cover even the modest workload of a ministerial review.

¹ The amendment to the General Plan and Specific Plans is in a generalized manner and does not cite specific areas or sections of other type of plan being amended. The validity of this will be discussed further in the Land Use discussion.

The Act levies an annual tax on cannabis businesses of five dollars (\$5.00) per square foot of the interior of the premises occupied by the cannabis business (Sec. .720.110 Taxes). The revenues collected shall be deposited into the City's General Fund. The Act requires that the City Council shall "*consider*" certain priorities before distributing the funds, including enforcement of the Act, mitigating adverse effects on youth, and improvements to infrastructure.

The Act does not specify how the taxes are to be collected, nor does it specify how, exactly, the City Council is to separately consider the listed priorities. Mere consideration of these priorities does not ultimately limit the City's discretion in how the revenues are to be spent, so it does not appear to rise to the standard of a "special tax" that would require approval by two-thirds of the voters. However, the Act also does not call for the revenues to be deposited into any special fund to be considered separately from other expenditures.

The Act allows that permits may be transferred or relocated but, in either case, requires that all of the same documentation must be provided for the transferee or for the new location as if for a completely new application (Sec. .720.130 – .720.145). Given this, it is likely that the only situation where transferring a permit would offer a procedural advantage over simply obtaining a new one would be in the case of one of the limited number of permits for cannabis retailers, where no new permits may be available.

Section Sec. .720.150 prohibits retail delivery of cannabis within the City unless the retailer holds both a valid license from the State and a local permit issued by the City. This provision now expressly conflicts with a recent change to California Code of Regulations Section 5416(d) which now states that deliveries can occur in "*any jurisdiction within the State of California.*" The comment period for this change recently closed. If left unchanged, this provision will be unenforceable. More recent ordinances to address the deliveries have focused on regulation of delivery activities to comply with the recent changes to California Code of Regulations Section 5416(d). However, as the Act has been presented by petition the City Council is unable to make any changes to the petition at this time. Moreover, the Act would invalidate any local ban on deliveries currently in force and pre-empt any such future bans.

Should the Act be approved by the voters, Section Sec. .720.200 provides that the City "...shall have 10 days from the date the election is certified to make all necessary changes to the City Code and begin accepting applications". This timetable is unrealistically short and may not allow adequate time for both making any required changes and for meeting legally required public noticing requirements.

The Act is generally written more like a *description* of an ordinance, rather than as an ordinance, itself. The language and structure at some points appear to focus more on saying what the ordinance will do, rather than providing the actual enabling language to do it. The format may be unconventional, but the language generally conveys enough meaning to discern the desired intent. However, there are a number of places where the language is either ambiguous, confusing or contradictory. A number of these discrepancies are discussed in the "Additional Impacts" section of the report.

Section Sec. .720.080 describes the cannabis business permit application process. Significantly, it states "*Such application shall contain, at a maximum, the following:*". The section goes on to list 12 required items, including name and address of applicant(s), articles of incorporation or organization (if the applicant is a corporation, LLC or partnership), legal description of the property and landowner permission, location map, site plan, floor plan, ventilation plan, fingerprints, photo identification, and a signed statement that all documentation is true and correct. This kind of documentation is commonly required of cannabis businesses.

However, the language states that this list defines the *maximum* documentation that can be required. The list does not allow the City to require any additional documentation such as operational procedures, a safety plan, security measures, or policies to address neighborhood compatibility. Additionally,

Section Sec. .720.100 makes it clear that *“All cannabis permit applicants... are ministerial²”*. This prevents the City from exercising any discretion or from requiring any conditions of approval. The City is allowed 10 days to verify that the application is complete³, and then the City Manager has 30 days to review the application and inspect the premises, if desired, before either approving or denying the application. This too imposes an impact on City staff that is not fully addressed through the collection of a \$250 application fee or \$5 per square-foot tax.

If the applicant has provided all of the required documentation, then the City has no discretion and must approve the application. The only grounds for denial are contained within Section Sec. .720.100 (E), which states *“If the City manager finds that any of the applicable requirements of this code are not satisfied or finds that the applicant has been previously found guilty of a felony within the last 10 years or finds evidence that the applicant has provided materially false information, the application will be denied”*.

The lack of discretionary review defeats the value of what little documentation is required. The City is not allowed to make any judgment as to the quality of the materials that have been provided; only that they are substantively complete. This makes the point of any site inspection questionable, as the City has no ability to impose any conditions or mitigations, or to compel any modifications to what is being proposed.

This loss of local control should be considered a significant impact unto itself. Without the ability to avoid, reduce, or mitigate impacts, the impacts and their associated costs will be externalized onto the City and, ultimately, the City’s taxpayers.

² With the exception of those seeking to produce cannabis products using volatile solvents

³ If the application is incomplete, the applicant then has 10 days to provide any missing documentation, at which the City then has 10 days to determine whether the amended application is complete. If it is not, the applicant has another 10 days to resubmit, and the process repeats.

III. Land Use Analysis

a. General Plan Consistency

The Act makes generalized changes to the City's adopted General Plan and Specific Plans, as well as specific changes amending the Pomona City Code, Pomona Zoning Ordinance and Zoning Map.

1. Industrial Cannabis Overlay

The Industrial Cannabis Overlay would effectively add cannabis cultivation, manufacturing, distribution and testing laboratories as allowable uses in the M-2 General Industrial zone. The M-2 zone allows a wide variety of other, similar uses including wholesaling, warehousing, distributing, laboratories, manufacturing and adult-oriented businesses (Pomona Zoning Ordinance Sec. .411 "Uses Permitted"). Other than cultivation, it is arguable that the commercial cannabis uses allowed by the Act are generally similar and consistent with the listed uses, even though they are not specifically enumerated.

Section 422 of the City's zoning code lists those uses specifically prohibited in the M-2 zone. Among these are medical marijuana dispensaries (422 F) and "*Commercial uses not specifically listed in Section .411-A*" (422 D). The Act does not allow cannabis dispensaries or retailers in the M2 zone.

Under the Act, cannabis manufacturing using volatile extraction processes would require a conditional use permit. This is to allow the City to address manufacturing techniques that use solvents that are or produce a flammable gas or vapor that when present in the air in sufficient quantities will create explosive or ignitable mixtures. (Sec. .720.020 Definitions). This CUP requirement for volatile extraction techniques appears to be consistent with Sec. .421 (B) of the Pomona Zoning Ordinance, which states "*Other manufacturing uses may be permitted in this zoning district subject to obtaining a conditional use permit from the planning commission, after a full and complete description of the processes of industrial operation is made*".

Cannabis cultivation appears to be the only outlier among the uses contemplated by the Act for the M-2 district. There is no similar use identified by the list in Sec. .411 of the Zoning Ordinance. The Act does not distinguish between indoor, outdoor, or mixed-light cultivation, which would appear to allow outdoor cultivation within the M-2 zone without any discretionary review or conditions. The terms "greenhouse" and "indoor" are referenced in the Definitions section of the Act, however, such terms are not used within the rest of the Act. Section 421 of the zoning code requires that "*all manufacturing operations shall be conducted within a totally enclosed building constructed in conformity with the building regulations of the city*".

Whether outdoor, indoors or in a greenhouse, cannabis cultivation is clearly a new and novel activity for which no similar use can be found or was contemplated within the M-2 district. Given this, consistency would dictate that the requirement for a conditional use permit under Section 421 (B) should apply. To allow cannabis cultivation as a principally permitted use in this zone without any discretionary review, conditions, or mitigations would appear to confer special treatment to cannabis above any other type of cultivation or other, similar use.

Furthermore, Section 421 (C) goes on to require:

- C. *Where any doubt or uncertainty exists as to the proper zoning district classification of an industrial use, the planning commission shall determine such, based on the following conditions:*

1. *That field investigations have disclosed that the subject use and its operation are compatible with the uses permitted in the area wherein it is proposed to be located; and*
2. *That the subject use is similar to one or more uses permitted in the district within which it is proposed to be located; and*
3. *That the subject use will not cause substantial injury to the values of property in the neighborhood within which it is proposed to be located; and*
4. *That the subject use will be so designed, located and operated that the public health, safety and general welfare will be protected. The decision of the planning commission shall be final unless a notice of appeal is filed pursuant to Section .560G1.*

By allowing cultivation as a principally permitted use subject only to a ministerial approval, the City is deprived of the ability to analyze and consider the potential impacts, or to require any conditions or modifications to mitigate those impacts, as otherwise required under Section 421 (C). In this way, the impacts and the cost of any mitigations are externalized onto the City and its residents.

2. Safe Access Cannabis Overlay

The SAC Overlay incorporates areas within both the Corridor Specific Plan (CSP) and the Downtown Pomona Specific Plan (DT-SP). Allowable cannabis uses within the SAC Overlay are retail, microbusinesses and distributors. However, microbusinesses include retail, cultivation, manufacturing and distribution, so two of the uses allowed as part of a microbusiness would not otherwise be allowed as a separate business.

The CSP allows a variety of retailers, but retail tobacco stores or off-sale alcohol stores currently require a conditional use permit. This would appear to be a close proxy for cannabis retailers. However, allowing cannabis retailers as a permitted use, subject to only a ministerial review, is inconsistent with the treatment of these similar uses.

The Act does not impact the CSP or DP-SP by imposing manufacturing uses, though light industrial uses such as manufacturing or processing of foods are allowed in both the Downtown Core and Downtown Gateway sections, which fall within the SAC Overlay. This would appear to be a similar use to cannabis manufacturing. However, there is no listed use that approximates cannabis cultivation. The closest enumerated use would be “indoor or outdoor storage or warehousing” which is listed as “not permitted”.

Those portions of the Downtown Specific Plan that fall within the SAC Overlay include Mixed-Use High-Density Residential (MU-HDR) and Mixed-Use Central Business District (MU-CBD). Specialty foods retailers are permitted in both the MU-HDR and the MU-CBD, but alcohol sales require a conditional use permit (CUP). General manufacturing uses are not allowed in either, though microbreweries are allowed with a conditional use permit. Any development project in any building 20,000 square feet or greater requires a conditional use permit in these existing districts, though such would not otherwise apply to cannabis uses under the Act.

While the Act only allows for 6 retailers (given the current population), all of these would have to be located within the 24 blocks of the SAC Overlay. Competitive market forces might suggest that this is unlikely to happen, but the Act gives the City no discretion in the matter. If enough applicants were to step forward, the City would have no ability to stop this area from becoming a regional “cannabis supercenter”. This kind of excessive concentration of “controversial” businesses is not unheard of.

Businesses or industries that are considered to bring undesirable social, economic or environmental impacts are often pushed out of more affluent cities and into disadvantaged communities nearby.

In total, the Act would impose new commercial cannabis uses into the DP-SP and CSP areas in the SAC Overlay which currently do not exist and for which the current business, manufacturing, and residential mix was not previously contemplated.

b. Impact on Housing

The Act deals only with commercial cannabis cultivation and makes no changes to Article X of the Pomona City Code, regarding personal cultivation, other than in regard to on-site consumption within cannabis retailers (see Section VI of this report, “Other Impacts; On-Site Consumption”). Commercial cannabis activities are only allowed in the Safe Access Cannabis Overlay and the Industrial Cannabis Overlay.

State law does not define residential areas as a sensitive use, but many jurisdictions have chosen to include them. The Act takes away city’s ability to do so. Parcels within the IC overlay (zoned M-2) allow for a single dwelling unit only if it is used in connection with an industrial establishment. However, the total number of pre-existing non-conforming residential units in portions of the M-2 zones and adjacent M-1 zones is unknown.

There are currently a number of existing residential units with the SAC, which are generally located on the 2nd floor or above, leaving the ground floor available for commercial uses. One parcel within the SAC overlay is vacant but currently entitled for affordable housing. The Act would not prevent the development of such a project. In addition, there are over 500 planned residential units currently in the entitlement review process within the footprint of the SAC Overlay. Proximity to planned or existing residential units will not prevent cannabis businesses from being able to locate in the City, nor will cannabis businesses disallow housing units to be constructed on adjacent parcels. However, a high concentration of cannabis retailers could negatively impact the desirability of nearby housing.

c. Impact on Agriculture and Open Space

As the Act affects only certain parcels and zones within the City, none of which are zoned for agriculture or open space use, there is little direct impact on these two uses. The IC overlay identified 492 separate Assessor Identification Numbers (AINs). Many of these parcels or units are shown as vacant or undeveloped. It is conceivable that some of these parcels may be developed for commercial cannabis uses as a result of this the Act.

Additionally, the Act allows cannabis cultivation, potentially including outdoor cultivation if allowed under state law, within the IC overlay. While this may technically be allowable under the Act, it is far more likely that any cultivation would be fully indoors, within warehouse structures. While such cultivation use may qualify as agriculture, it does not affect agricultural lands or soils. No impact on agricultural lands or open space is therefore anticipated.

d. Impact on Traffic, Parking, and Existing Business Districts

The Act does not provide any specific parking standards, so the existing parking standards in Section 503-H of the City of Pomona Zoning Code would apply. The standard for manufacturing, industrial and wholesale uses requires one parking space for each five hundred square feet of gross floor area. Retail sales and services are required to provide one space for each two hundred fifty square feet of floor area, but not less than two spaces per unit. Testing laboratories would presumably fall under the category of

“research and development uses”, which requires one parking space for every three hundred square feet. All other conditions would apply, including requirements for landscaping, handicapped parking, and drainage.

The parking standards in Section 503-H do not identify any use that is similar to cannabis cultivation. The closest standard would likely be warehousing, which requires one parking space for every one thousand feet of gross floor area. Other than this, cultivation may fall into the category of “uses not otherwise specified in this subsection”, which would leave it to the discretion of the Community Development Director to determine the parking requirements based upon the most similar specified use.

The parking and traffic impacts generated by most cannabis businesses are likely to be within the range of impacts contemplated by the City’s zoning and current uses. The one exception to this would likely be cannabis retailers. Data shows that cannabis retailers typically need a minimum flow of around 120 customers per day, though this traffic is likely concentrated at peak hours. A table of common trip generation rates for peak p.m. hoursⁱⁱ shows cannabis retailers (“marijuana dispensaries”) as generating 21.83 trips per 1,000 square feet of gross floor area. This is generally similar to businesses such as liquor stores (16.37 trips per 1,000 sf), bagel/donut shops (28 trips per 1000 sf) or non-drive-through fast food restaurants (28.34 trips per 1,000 sf). For comparison, copy and express shipping stores are listed as generating 7.42 trips per 1,000 sf, pharmacies generate 8.51 trips per 1,000 sf, and convenience stores generate 49 trips per 1,000 sf.

With no more than six retailers serving such a large, populous area, a much higher flow of customer traffic is anticipated. Additionally, the Act would limit all retailers to the same 24-block area downtown, making it likely that retailers would be located within one or two blocks of each other.

The Act does not specify hours of operation for cannabis businesses. However, State law currently limits cannabis retailers to hours of operation from 6 a.m. to 10 p.m. Despite this range of hours, retail traffic would likely be more concentrated at certain hours of the day, particularly in the evening.

IV. Fiscal Analysis

a. Permitting and Enforcement Costs

State law allows cities to recover the direct costs associated with processing a permit or entitlement; performing investigations, inspections, and audits; and administrative enforcement of the permit or entitlement. Cities that regulate cannabis businesses often require a discretionary permit, so as to ensure that the proposed business will not create adverse impacts on to the community, and collect fees that are adequate to allow for a detailed review of the application.

The Act states that it *“Impose[s] fees and taxes to cover the cost to the City of regulating cannabis businesses in an amount sufficient for the City to recover its related costs, and to help mitigate against possible adverse secondary effects”*. The City disputes this claim.

While the Act allows only for a ministerial zoning clearance, rather than a discretionary permit (other than manufacturing using volatile solvents, which requires a conditional use permit), no analysis has been done by the proponents to support the claim that the fees charged will cover the costs of the City in implementing the Act.

While a ministerial permit requires far less staff time than a CUP, it is not negligible. Moreover, only allowing a ministerial permit denies the City the ability to perform a better analysis and review of the potential impacts of each proposed business, and prevents the City from being able to require any conditions that might *“help mitigate against possible adverse secondary effects”*. The inability to provide this sort of upfront regulatory oversight may be considered an externalized (non-recovered) cost of this ordinance which would be paid for by the General Fund and, ultimately, the City’s taxpayers. Since the General Fund is currently forecasted to be in a deficit position, cannabis regulation would be implemented through the use of reserves or at the reduction of other City Services.

The only fee that is specified is an application fee of \$250. It is unclear how this figure was derived or what, exactly, it is intended to cover, but it is unlikely to be *“sufficient for the City to recover its related costs”*, even given the ministerial review. For example, Section Sec. .720.080 (J) requires *“Live Scan fingerprints of the applicant or authorized individual(s) to enable the Pomona Police Department to perform a background check on the applicant”*. The Live Scan costs \$73 per individual. Assuming 4 partners or individuals for a business, the cost for Live Scans, alone, would be \$292.

City consultants at HdL have evaluated and conducted application reviews for over 1,400 cannabis businesses in the past three years. In addition, HdL staff have conducted compliance and financial reviews for over 11,000 cannabis businesses while working as regulators in California, Colorado, and Nevada. This experience has provided HdL with significant data that informs the “fit gap” analysis for the application review process for prospective cannabis businesses. This analysis considers the multiple steps of the review process, the staff that will be participating in each step, and number of hours for each. The complexity of the process varies for each county or city, depending on their desired level of review, but is commonly in the range of \$2,500 per applicant.

In addition to such up front application review costs, HdL has worked with many jurisdictions to develop an annual fee for ongoing oversight of cannabis businesses. This fee covers a cannabis management program that includes risk-based inspections, response to complaints, background checks, permit renewals, administrative actions and ongoing training for staff. As with the application review process, the cost of this ongoing monitoring and compliance program can vary, depending upon the desired level of oversight. Most commonly, such an application and review program involves 60-75 hours of staff time for a variety of departments, generally including planning, law enforcement and the City Attorney.

Based on HdL's experience, it is believed a more reasonably comparable program for the City of Pomona may involve 75 hours of combined staff time for each cannabis businesses, with a total annual cost of \$8,439 for each business. Because the Act only allows for a ministerial zoning clearance, the City would likely not have the ability to require these kinds of fees for ongoing monitoring and compliance. These costs are shown in the table below.

Estimated Annual Regulatory and Enforcement Costs per Cannabis Business			
Department	Avg. Hourly Rate	Hours Required	Program Cost
Law Enforcement	\$112.99	51.75	\$5,506
City Attorney	\$275.07	7.50	\$1,913
Other County staff	\$69.13	15.75	\$1,021
Total		75.00	\$8,439

This table does not show costs for enforcement in response to criminal activity or code violations. Rather, this table shows the estimated costs for a regulatory program to provide upfront and ongoing monitoring and oversight of cannabis businesses to prevent such violations from occurring. The cost for such a program would be borne by the regulated business. Without such regulatory oversight, it is likely that the City would experience increased reliance on law enforcement and code enforcement for compliance, which would put this cost upon the General Fund and the taxpayers, rather than upon the regulated business.

When these ongoing compliance and enforcement costs are added to the upfront permit review costs, the total first-year cost for the City to permit and monitor each cannabis business would be around \$11,000. Under the Act, the only cost that the City would likely be able to recover would be a \$250 application fee, which would be unlikely to cover the cost of a ministerial zoning clearance.

b. Taxes and Potential Revenues

The Act levies an annual tax on cannabis businesses of five dollars (\$5.00) per square foot of the interior of the premises occupied by the cannabis business (Sec. .720.110 Taxes). The revenues collected shall be deposited into the City's General Fund. The Act requires that the City Council shall "consider" certain priorities before distributing the funds, including enforcement of the Act, mitigating adverse effects on youth, and improvements to infrastructure.

1. Cannabis Retailers

Assuming 2 cannabis retailers with an average size 4,500 square feet, the Act's proposed tax of \$5 per square foot would generate \$45,000 in annual revenue for the City. Four (4) retailers would generate \$90,000 per year, and 6 retailers would generate \$135,000 per year. HdL's analysis of this scenario is that the very limited number of allowable spaces within the SAC Overlay will limit the number of retailers locating within the City. The most likely scenarios would be either 2 or 4 retailers, generating between \$45,000 and \$90,000 in annual revenue for the City.

2. Cannabis Manufacturers

Based on HdL's experience in other counties and cities, it is anticipated that the City of Pomona could support between 2 to 6 manufacturers of varying types and sizes, producing annual revenues of \$27,500 up to \$82,500. Were the City and surrounding area to develop a significant number of cultivators and distributors, this figure would likely grow.

3. Distributors and Testing Laboratories

Distributors tend to be located in cities that serve either a large, surrounding area of cultivation, or that serve a large surrounding customer base. Pomona's location between desert communities with large amounts of licensed cultivation and the primary customer base of Los Angeles could make the City an attractive location for distributors. At the proposed rate of \$5 per square foot, 2 distributors averaging 4,500 square feet each would generate \$45,000 in annual revenue for the City of Pomona. Four (4) distributors would generate \$90,000, and 6 distributors would generate \$135,000.

Though the City of Pomona has an ample supply of available properties within the IC Overlay, it is not evident why testing laboratories would choose to locate in the City unless and until there is a greater number of other cannabis businesses. Accordingly, HdL has not included these in the revenue estimates.

4. Cultivation

The proposed Act does not specifically disallow outdoor or mixed-light cultivation, but the most likely scenario is that any cannabis cultivation in the City of Pomona pursuant to the Act would almost certainly be indoors. The most common range of tax rates for indoor cultivation is \$7 to \$10 per square foot of cannabis canopy. The \$5 rate proposed by the Act is well below that, but it would appear to apply the tax to all interior spaces of the premises, not just the actual canopy area. Assuming an average cultivation facility of 30,000 square feet, then 2 cultivators would generate \$300,000 in annual revenue for the City, 4 facilities would generate \$600,000, and 6 facilities would generate \$900,000.

Based on these assumptions, it is projected that the tax proposed by the Act could generate anywhere from \$417,500 to \$1,252,500 in gross annual revenue for the City. A more conventional tax structure and rates would generate between \$653,000 and \$1,959,000. The assumptions and methodology used for these projections is explained in detail in HdL's Cannabis Business Market Analysis which is included in the Appendix.

c. Indirect Costs

As with other cities, the City of Pomona receives certain infrastructure funding from the federal government. The inconsistency between State and federal law regarding cannabis creates concern that allowing commercial cannabis businesses could run afoul of federal funding guidelines. Staff and HdL are not aware of any circumstance where the federal government has withheld infrastructure funding from California cities that allow cannabis activities prohibited by federal law.

However, this is still an evolving issue and a potential impact. The Department of Justice under the Obama administration had provided guidance to U.S. Attorneys which affirmed a 'hands off' approach to individual state's cannabis regulatory programs, but that guidance was rescinded by the Trump administration and no new guidance has since been provided. This lack of clarity remains an ongoing concern and potential impact. Should federal enforcement become a detriment to the City in the future, a cannabis regulatory scheme adopted by the voters, such as the Act, does create an impact to the City in that the City would be without power to easily amend or rescind the offending provision or provisions of the Act. Instead, the City would need to rely on court interpretations of how to address such offending provisions in connection with the Severability clause of the Act in Section 9 of the Act.

Additionally, the City would incur certain costs and liabilities from handling large amounts of cash from the cannabis industry. The City's bank has already put the City on notice that it will not accept any City deposits once cannabis revenues enter the City's cash stream. This will require the City to immediately engage the process of acquiring a new bank and to absorb the associated costs incurred.

V. Additional Impacts

a. On-Site Consumption

The Act contains ambiguous or contradictory language regarding on-site consumption of cannabis at retailers. Section 4 (B) states:

Paragraph (c) of Subsection 34-903 of Article X of Chapter 34 of Subpart A of the City of Pomona Municipal Code is hereby repealed in full and replaced with the following language: "Smoking of cannabis shall be prohibited in any building, structure, location, area or place where the Code currently prohibits the smoking of tobacco, unless otherwise authorized under Section .Sec. .720 of the Pomona Code, known as the "Pomona Regulate Cannabis Act of 2018."

Section Sec. .720.050 (B)5 "Smoking Prohibition", goes on to state:

Smoking of tobacco and cannabis in all workplaces, including cannabis dispensaries, is prohibited. Vaping, and other forms of cannabis consumption, under the limited conditions provided by California Business and Professions Code 26200, or as amended, shall be allowed.

On its face, the language appears to prohibit smoking of cannabis in any workplace, including dispensaries (retailers), while allowing vaping at retailers. However, the language goes on to say "vaping, and other forms of cannabis consumption... shall be allowed". "Other forms of cannabis consumption" implicitly includes smoking. Thus, on-site smoking of cannabis is both explicitly prohibited and implicitly allowed.

Additionally, the language says that cannabis consumption shall be allowed "under the limited conditions provided by California Business and Professions Code (BPC) 26200". Business and Professions Code Section 26200 (g) reads:

Notwithstanding paragraph (1) of subdivision (a) of Section 11362.3 of the Health and Safety Code, a local jurisdiction may allow for the smoking, vaporizing, and ingesting of cannabis or cannabis products on the premises of a retailer or microbusiness licensed under this division if all of the following are met:

(1) Access to the area where cannabis consumption is allowed is restricted to persons 21 years of age and older.

(2) Cannabis consumption is not visible from any public place or nonage-restricted area.

(3) Sale or consumption of alcohol or tobacco is not allowed on the premises.

BPC 26200 allows local jurisdictions to allow on-site consumption. Thus the language of the Act may be interpreted to say either that the City *shall allow* on-site consumption, or that the City *shall be allowed to allow* on-site consumption.

This language is unclear and open to interpretation. Ultimately, interpretation of this language may be subject to adjudication by the courts. As a citizen initiative, any registered voter who signed the petition and/or voted in the election would have standing to sue the City over interpretation or implementation of the Act. The cost of such potential litigation should be considered a significant externalized impact of the Act.

b. Cultivation Types

The Act provides definitions for both “greenhouse” and “indoor”, but ultimately makes no distinction between indoor, outdoor or mixed light cultivation. All appear to be principally permitted within the IC overlay. Still, the definitions in Section Sec. .720.020 of the Act define “Greenhouse” as *“a building, typically constructed of a translucent building material in which plants are grown in a controlled environment. For the purposes of this code a cultivation site within a Greenhouse is considered to be an indoor cultivation site”*. This is inconsistent with the definitions provided in State law.

State law defines outdoor, indoor and mixed-light cultivation based on their lighting source, rather than the structure. Under State law, cultivation within a greenhouse using no supplemental artificial light would still qualify as “outdoors”. Greenhouse cultivation that includes supplemental lighting would be considered “mixed-light”. Under State law, indoor cultivation is not allowed to use any natural light, which means that a greenhouse constructed of translucent building materials could not possibly qualify for an “indoor” license.

Despite this inconsistency, State law does allow local jurisdictions to limit or define commercial cannabis activities in other ways other than by the State license types. Ultimately, though, these definitions are meaningless as the Act does not distinguish between them in any way.

Similarly, cannabis nurseries are defined within the ordinance, but no provision is made to allow them in either the SAC overlay or the IC overlay. Presumably the City could choose to allow them or not.

c. Microbusinesses

The Act allows microbusinesses as a principally-permitted use within the Safe Access Cannabis Overlay, subject only to a ministerial review. A microbusiness is a license type that allows a combination of commercial cannabis activities under a single ownership and within a single premises. In order to hold a microbusiness license, a licensee must engage in at least three of the following commercial cannabis activities: cultivation (less than 10,000 square feet of canopy), manufacturing, distribution, and retail sale.

This creates some confusion and internal inconsistency, as cultivation or manufacturing would otherwise only be allowed in the IC Overlay, and would not be allowed in the SAC Overlay. As a microbusiness is required to include at least 3 of the 4 listed activities, there is no possible version of a microbusiness that would not include either cultivation or manufacturing. The most common model of microbusiness includes cultivation, manufacturing, and retail, yet two of these uses would not be allowed as a separate business in the SAC Overlay. As a part of microbusiness, they would be principally permitted.

Additionally, while the retail activity of a microbusiness is a separately allowed use within the SAC Overlay, the Act is unclear whether such businesses should be included within the limitation on the number of retailers, or whether they would be in addition to this number. If the latter, then conceivably the City could have 6 stand-alone retailers and an unlimited number of retailing microbusinesses, all within the same 24-block area. Ultimately, the Act provides no guidance on whether microbusinesses should be considered a separate category or the sum of its parts.

d. Adult Use Versus Medicinal Use Licenses

The definitions in the Act include “A-licensee” and “M-license” for adult-use and medicinal use, respectively. The inconsistent use of “licensee” versus “license” is curious, but not significant. However, the definitions ignore the current AM licenses for businesses that are licensed for both adult use and

medicinal cannabis. This, again, is likely not a significant omission, but should be rectified to more accurately reflect current State licensing and regulations. While the single AM license is a relatively new development, the vast majority of cannabis businesses statewide are licensed for both medicinal and adult use cannabis. It is anticipated that AM licenses will quickly become the most common license designation, as the distinction between medicinal and adult use cannabis becomes less and less relevant.

As with the different cultivation types, including these definitions at all is somewhat irrelevant as the Act ultimately makes no distinction between the two.

e. Potential Impact on Lease Rates and Property Values

The extremely limited number of candidate parcels for cannabis retailers and microbusinesses poses a concern that property owners may demand a premium for leasing or renting these commercial spaces, making them less affordable for other businesses or even pushing out existing tenants. The Act allows for 1 retailer for every 25,000 residents. With a current estimated population of 155,687, this would allow for no more than 6 retailers.

This concern is further heightened by the lack of legal cannabis retailers in any neighboring cities. Studies have shown that consumers are typically willing to drive up to 15 minutes to make routine purchases. Thus a cannabis retailer in the City of Pomona would likely serve an area that includes the neighboring cities of San Dimas, Diamond Bar, Chino, Ontario, Claremont, La Verne, Montclair. Due to this, the actual customer base that would be served by these 6 retailers would likely be closer to 450,000⁴. This works out to approximately 75,000 residents per retailer, greatly increasing the potential sales for each retailer and, by extension, increasing the value of each legally-allowable location.

The initiative specifically lists 100 parcels that would be included within the SAC Overlay. The list in the initiative does not account for the 600' buffer radius from sensitive uses. Data provided by the City's planning department shows that applying these sensitive use buffers would make all but 15 of these parcels unavailable for cannabis uses. Of these 16 parcels, 2 are City-owned parking lots and one is entitled for affordable housing and thus unavailable. This leaves just 13 candidate parcels for 6 retailers to serve a customer base of 450,000 people. With such high potential demand for so few properties, it is very possible that landowners could ask for significantly higher rates.

Anecdotal reports from various counties and cities suggest that some property owners have attempted to demand prices that are 2 to 4 times higher than then-current market rates, due to their potential for commercial cannabis uses. However, there is not yet any firm data to indicate the degree to which the market is rewarding such speculation over the long term.

A number of reports have suggested that lease rates for industrial properties in Colorado increased from 10%ⁱⁱⁱ to 50%^{iv} due to legal cannabis businesses. Prices for small-to-medium-sized warehouses in the Sacramento region have increased between 30% to 40%^v, and prices for industrial properties in Sonoma County have in some cases increased by 35% to 100%^{vi}.

The City's planning department identified 492 separate Assessor Identification Numbers within the IC Overlay which would allow cannabis cultivation, manufacturing, testing or distribution. Many of these properties appear to be vacant or unimproved. With such a high number of candidate parcels for these

⁴ The total population of these 8 cities is close to 900,000, but for purposes here estimate is reduced to that portion of the population that is within a 15-minute drive of downtown Pomona.

commercial cannabis activities (other than retail), it is not anticipated that allowing commercial cannabis businesses would bring any significant increase to lease rates, beyond some initial landowner speculation.

Current lease rates of \$1 to \$1.25 per square foot of retail space are common in downtown Pomona. However, cannabis retailers elsewhere in the greater Los Angeles area are willing to pay over \$10 per square foot. With a potential customer base of some 450,000 people, such businesses may be willing to pay these much-higher rates. The desire of property owners to attract these high-paying businesses could potentially push out existing businesses.

f. Loss of Local Control

The Act denies the City the ability to determine where cannabis businesses may best be located, in what number, under what conditions, and with what mitigations. In doing so, the Act takes away the City's ability to appropriately assign the costs of regulation to the entity being regulated. Without the ability to avoid, reduce, or mitigate impacts, the impacts and their associated costs will be externalized onto the City and, ultimately, the City's taxpayers. The Act further eliminates the City's ability to react to changes in the marketplace, State law, and developments in the cannabis industry in the future without going to a vote of the people to amend the Act.

g. Impact on Other Businesses

The Act would limit the City and community's abilities to identify appropriate locations and zoning districts for commercial cannabis activity, to conduct environmental review, and impose mitigation. There is no mechanism available in the Act for the City to enforce any kind of traffic or parking plans, study pedestrian or vehicular circulation, etc. As such, commercial cannabis businesses could locate in locations that the City may consider undesirable due to impacts associated with such use, or that otherwise impact other uses.

Also, it is difficult to project or analyze the impact that legal cannabis businesses may have on the City's ability to attract or retain other businesses. This is because the impact would likely be driven more by the subjective values of individual business owners towards cannabis, rather than any objective, market-based forces. While it could be assumed that there are business owners who may not wish to locate, or stay located, near a high-profile cannabis business, there are presumably others for whom this would simply not be an issue. Aside from existing businesses which find cannabis retailers as their new neighbors, there may also be some businesses that would actively seek to be located next to or near cannabis retailers. What these business types are and how they fit within the City's vision for downtown is unknown.

As with any other industry, the cannabis industry does not exist in a vacuum. Those businesses that actually grow, process, manufacture, distribute and sell cannabis products offer commercial opportunities to a wide variety of other businesses that may never touch the actual product itself. These include a wide variety of contractors including building and construction, lighting and electrical, HVAC, permitting, and engineering, as well as a host of ancillary businesses such as bookkeepers, accountants, tax preparers, parcel services, marketing and advertising agencies, personnel services, facilities maintenance, security services, and others.

The economic benefits are not limited to those in the cannabis industry, itself. Cultivators and manufacturers bring new money into the community by selling their products into a statewide market. Their profits and the salaries they pay move into the general local economy, supporting stores, restaurants, services, and other businesses.

VI. Conclusion

Based upon the foregoing analysis, we make the following conclusions about the Pomona Regulate Cannabis Act of 2018.

- The Act intends to provide a regulatory framework for commercial cannabis activities in the City, it is so poorly written that the City would incur great difficulty trying to implement it, were it to pass. The Act is vague and internally inconsistent, at some points both allowing and prohibiting the same activity in the same zone.
- The fees imposed by the Act are arbitrary and bear no relation to the actual time and cost of reviewing the applications.
- The taxes imposed by the act are far below current norms, depriving the City of revenues that could assist with a variety of pressing needs.
- The limited ministerial review allowed by the Act denies the City the ability adequately protect public health and safety, externalizing the costs and the possible impacts onto the general public.

The following appendices are presented to assist the City Council in its action on whether to adopt the ordinance in the Act or forward such to the voters for consideration at a future election.

XII. APPENDIX

City of Pomona Cannabis Business Market Analysis	Page 20
Legal and Regulatory Background for California	Page 26
State Tax Considerations	Page 30
General Economic Impacts	Page 32
Land Use Maps	Page 34
References	Page 37

City of Pomona Cannabis Market Analysis (Prepared by HdL)

The Act levies an annual tax on cannabis businesses of five dollars (\$5.00) per square foot of the interior of the premises occupied by the cannabis business (Sec. .720.110 Taxes). The revenues collected shall be deposited into the City's General Fund. The Act requires that the City Council shall "consider" certain priorities before distributing the funds, including enforcement of the Act, mitigating adverse effects on youth, and improvements to infrastructure.

As with other impacts, the amount of revenue that the City may be able to generate from a tax measure depends upon the type, number and size of cannabis businesses that may choose to locate within the City.

Cannabis Retailers

The Adult Use of Marijuana Act created a single license type for cannabis retailers (Type 10), though it is available in both M (Medical) or A (Adult Use) versions. The Bureau of Cannabis Control created an additional Type 9 license for non-storefront retailers which conduct retail cannabis sales exclusively by delivery. The Act makes no distinction between storefront and non-storefront retailers, or between medical and adult-use licensees.

In May, California's three cannabis licensing agencies readopted their emergency regulations for another 180-day period, with a number of minor changes. Among these changes was a provision that applicants may now obtain a single license to conduct both medicinal and adult-use cannabis activity. Additionally, licensees may continue to engage in commercial cannabis activities with other licensees regardless of their A or M designation.

On July 13th, these agencies released their draft non-emergency regulations for a 45-day comment period. Included within these most recent revisions is a change to California Code of Regulations Section 5416(d) which now states that deliveries can occur in "*any jurisdiction within the State of California.*" This regulation took effect on June 6, 2018 and will remain in force at least until December 6, 2018. If left unchallenged, it will invalidate any local ban on deliveries currently in force and pre-empts any such future bans.

This may be a significant issue for the City of Pomona, as Section Sec. .720.150 of the Act prohibits retail delivery of cannabis within the City unless the retailer holds both a valid license from the State and a local permit issued by the City. The change in the recently-issued draft regulations would effectively invalidate this requirement, allowing any licensed cannabis retailer to deliver cannabis to addresses within the city limits, without having to get a permit from the City⁵.

Data collected for a Standardized Regulatory Impact Assessment conducted for the Bureau of Medical Cannabis Regulation (now Bureau of Cannabis Control)^{vii} found that 57% of cannabis retailers statewide use a storefront location, while 47% conduct business using a delivery service. The 4% overlap in the results represents retailers that sell through both a storefront and a delivery service. This 4% figure is believed to be an underestimate due to certain reporting requirements.

⁵ HdL published an issue update on this subject in July, including guidance for cities and counties that may wish to express their opposition to this change.

The Weedmaps website (weedmaps.com) shows 21 cannabis retailers within the City of Pomona; 7 are storefronts, and the remaining 14 are delivery only. Weedmaps shows an additional 51 cannabis retailers in neighboring cities within a 15 minute drive of downtown Pomona. Combined, Weedmaps shows 72 cannabis retailers that might reasonably serve consumers in Pomona, none of which appear to be licensed by the Bureau of Cannabis Control.

HdL has access to confidential sales tax data from the California Department of Tax and Fee Administration. This data shows all businesses that report or remit retail sales tax to the State, including cannabis-related businesses. It is common for communities that do not allow any legal retail sales of cannabis to nonetheless show some of these reporting businesses. This data shows 5 such businesses in the City of Pomona, though none of them have reported any taxable sales in the last 4 quarters.

If we include the surrounding cities, the data shows a total of 31 businesses, though most of them show no receipts for the last 4 quarters. Those businesses that did report taxable sales showed a combined total of just \$293,900 for the past year, which is far below what we would expect even a single licensed cannabis retailer to report.

The Weedmaps data and the CDTFA data do not match up, but they do show that there is an existing cannabis retail network that is already supplying the greater Pomona area. Cannabis sales are already happening, which means that there is an existing customer base for legal retailers.

Estimates of the percentage of the population that uses cannabis on a regular basis vary from around 10% to 13%^{viii}, up to as high as 22%^{ix}. For the City of Pomona, with a population of 155,687, this would mean somewhere between 15,569 and 34,251 potential cannabis consumers. Storefront recreational and adult-use cannabis retailers typically average around 120 customers per day^x, with a total customer base of around 2,500 customers. From this, we can assume that overall cannabis consumers in the City of Pomona, itself could likely support between 6 and 14 retailers.

However, none of the surrounding cities of San Dimas, Diamond Bar, Chino, Ontario, Claremont, La Verne or Montclair currently permit cannabis retailers. Because of this, it is likely that retailers located in the City of Pomona would attract customers from the surrounding area. If we include residents of these other cities who are within a 15-minute drive of downtown Pomona, the total population increases to around 450,000, and the number of cannabis consumers increases to a range of 45,569 to 100,251. This customer base could potentially support from 18 to 40 cannabis retailers, depending upon the size of the businesses.

The gross receipts for retailers is variable depending upon the number of retailers serving a given population, so it's reasonable to expect that more retailers will mean fewer customers for each and, thus, lower gross receipts. Retailers are the only cannabis business that specifically serves the local community, rather than feeding into the statewide market, and so the number of dispensaries can be assumed to be somewhat proportional to the local population. Consumer demand for cannabis is assumed to generally be a constant, regardless of its legal status or the availability of dispensaries, and so it's reasonable to expect that more dispensaries will mean fewer customers for each and, thus, lower gross receipts.

However, there will always be an upper limit. We anticipate that providing greater access to dispensaries or retailers would initially facilitate a shift in cannabis purchases happening through legal, regulated means rather than through the black market, especially for non-medical cannabis. Eventually, though, the local cannabis market will reach saturation, at which point new cannabis retailers will simply cannibalize sales from existing retailers. The taxable amount of gross sales will likely plateau at some point, regardless of the number of retailers.

Under California's regulatory program, it is anticipated that consumers will have little reason to purchase cannabis in the medical segment rather than buying in the adult use segment. Both medical and adult use cannabis will pay the State cultivation tax and excise tax, with the only advantage being an exemption from regular sales tax for qualifying patients with a state-issued identification card. Currently there are only 6,172 such cardholders in California, with just 973 in all of Los Angeles County^{xi}, and 635 in Riverside County. Eligibility for this limited sales tax exemption will cost consumers approximately \$100 per year, plus time and inconvenience, for a savings of 9.5% in the City of Pomona. It's anticipated that this will provide no price advantage for the vast majority of cannabis consumers^{xii}.

The Bureau of Cannabis Control projects that more than half of the adult use purchases currently in the black market will transition to the legal market to avoid the inconvenience, stigma and risks of buying unknown product through an unlicensed seller^{xiii}. Essentially, the easier, cheaper and more reliable it is for consumers to access quality cannabis legally, the less reason they will have to purchase it through the black market. That same study projects that 60% of those currently in the legal, medical cannabis market will shift to the adult use market, for the reasons noted above. The availability of legal adult use cannabis is also anticipated to produce a small 9.4% increase in consumer demand.

The shift from medical to adult use sales is not expected to change the overall volume of sales, only the category into which they fall. Once the legal, adult use market is properly functioning, it is anticipated to capture about 61.5% of the overall cannabis market in California. The legal medical cannabis market is projected to decline to just 9% of the overall market. The other 29.5% is expected to remain in the black market^{xiv}. The vast majority of retail licenses issued by the Bureau of Cannabis Control are for retailers who will operate both medical and adult use from the same premises.

The Act allows 1 cannabis retailer for every 25,000 residents, which would equate to 6 retailers for the current population of 155,687. The Act provides for a tax of \$5 per square foot of interior space for all cannabis businesses. This metric is unusual for any cannabis business other than cultivation, as retailers and manufacturers are most commonly taxed as a percentage of gross receipts.

To develop revenue projections for this initiative, we reviewed dozens of applications for various cannabis businesses from around Southern California, including Los Angeles, Riverside and San Bernardino counties. From these we were able to derive average square footage for each type of cannabis business. We then looked at the size of the existing buildings on the allowable parcels within the SAC Overlay, and adjusted our average to reflect the actual spaces that are available. From this, we developed an average of 4,500 square feet for cannabis retailers.

We have provided three possible scenarios, assuming 2, 4 or 6 retailers. With two retailers, the Act's proposed tax of \$5 per square foot would generate \$45,000 in annual revenue for the City. 4 retailers would generate \$90,000 per year, and 6 retailers would generate \$135,000 per year. By comparison, a more conventional gross receipts tax at the modest rate of 4% would likely generate between \$200,000 and \$600,000 per year. These projections are shown in Figure 1, below.

Figure 1:

Cannabis Retailers						
Retailers	# of Licenses	Gross Receipts	Avg Square Footage	Total Square Footage	Revenue @ \$5 per Square Foot	Revenue @ 4% of Gross Receipts
Retailers	2	\$2,500,000	4,500	9,000	\$45,000	\$200,000
Retailers	4	\$2,500,000	4,500	18,000	\$90,000	\$400,000
Retailers	6	\$2,500,000	4,500	27,000	\$135,000	\$600,000

From our analysis, we believe that the very limited number of allowable spaces within the SAC Overlay will limit the number of retailers locating within the City. We believe the most likely scenarios would be either 2 or 4 retailers, generating between \$45,000 and \$90,000 in annual revenue for the City.

Cannabis Manufacturers

The manufacturing sector is still evolving and expanding, which presents significant opportunities for innovation, business development and job growth. The range of products being produced includes an ever-increasing variety of edibles such as candies, cookies, dressings, and infused (non-alcoholic) drinks. Manufacturers may produce their own extract on site, or they may buy extract from other Type 6 or Type 7 licensees. Much like any other industry, cannabis manufacturers often depend upon other businesses to supply them with the various materials or components that go into their final product. These suppliers do not have to be located in or even near the same jurisdiction as the final manufacturer, and may be located anywhere throughout the state.

Some manufacturers may handle all steps from extraction to packaging the end product in the form of vape pens or other such devices. Others may handle only discreet steps, such as making the raw BHO, which is then sold either directly to retailers or to a Type N manufacturer who will package it into vapor cartridges or other end consumer products. Manufacturers also produce a wide variety of tinctures, as well as topicals such as cannabis infused lotions, salves, sprays, balms, and oils.

As of August 12th, the Manufactured Cannabis Safety Branch (MCSB) of the California Department of Public Health has issued 668 cannabis manufacturing licenses statewide. Of these, 347 are for non-volatile extraction, 209 are for volatile extraction, 91 are for non-extraction manufacturing and 21 are for packaging and labeling. These 668 licenses are held by 434 unique businesses.

The MCSB has issued 103 manufacturing licenses in Los Angeles County, of which 87 are for Type 6 non-volatile extraction, 1 is for Type N non-extraction manufacturing, and 15 are for Type 7 volatile extraction. In neighboring Riverside County, the MCSB has issued 73 licenses, of which only 11 are for Type 6 non-volatile extraction, and 57 are for Type 7 volatile extraction. The remaining 6 are for Type N and Type P licenses.

As with our analysis of retailers, we examined applications for numerous cannabis manufacturers in the Southern California region, which suggests an average floor area of just 2,750 square feet. From our analysis, we believe the large volume of allowable parcels within the IC Overlay could be very encouraging and inviting for cannabis manufacturers. The parcels range from less than 1,000 square feet to more than 14 acres in size, and a Google Earth analysis suggests a wide variety of building types and sizes. The small average size of cannabis manufacturers suggests they would be able to find plentiful available spaces among the 492 Assessor parcels.

For our analysis, we anticipate that the City of Pomona could support between 2 to 6 manufacturers of varying types and sizes, producing annual revenues of \$27,500 up to \$82,500. By comparison, a more conventional gross receipts tax at the rate of 2.5% would generate between \$100,000 and \$300,000 per year. Were the City and surrounding area to develop a significant number of cultivators and distributors, this figure would likely grow. These figures are shown in Figure 2.

Figure 2:

Cannabis Manufacturers						
Manufacturer	# of Licenses	Gross Receipts	Avg Square Footage	Total Square Footage	Revenue @ \$5 per Square Foot	Revenue @ 2.5% of Gross Receipts
Manufacturers	2	\$2,000,000	2,750	5,500	\$27,500	\$100,000
Manufacturers	4	\$2,000,000	2,750	11,000	\$55,000	\$200,000
Manufacturers	6	\$2,000,000	2,750	16,500	\$82,500	\$300,000

Cannabis Distributors

The business model for distributors is based on a percentage markup on the price paid to their suppliers. This markup is commonly 20% to 30%. While there is not an abundance of data to determine the average gross receipts for distributors, HdL has reviewed a number of pro-formas for distributors seeking licenses in other jurisdictions. These indicate anticipated gross receipts in the range of \$2 million to \$3 million per year, with an average of \$2.5 million.

Distributors tend to be located in cities that serve either a large, surrounding area of cultivation, or that serve a large surrounding customer base. Pomona's location between desert communities with large amounts of licensed cultivation and the primary customer base of Los Angeles could make the City an attractive location for distributors, potentially bringing a disproportionate share of such businesses.

Our database of business applications suggested an average floor area of 4,500 square feet for cannabis distributors. At the proposed rate of \$5 per square foot, 2 distributors of this size would generate \$45,000 in annual revenue for the City of Pomona. 4 distributors would generate \$90,000, and 6 distributors would generate \$135,000. By comparison, a gross receipts tax of 2% would generate between \$80,000 and \$240,000. These rates and amounts are shown in Figure 3.

Figure 3:

Cannabis Distributors						
Distributors	# of Licenses	Gross Receipts	Avg Square Footage	Total Square Footage	Revenue @ \$5 per Square Foot	Revenue @ 2% of Gross Receipts
Distributors	2	\$2,000,000	4,500	9,000	\$45,000	\$80,000
Distributors	4	\$2,000,000	4,500	18,000	\$90,000	\$160,000
Distributors	6	\$2,000,000	4,500	27,000	\$135,000	\$240,000

Testing Laboratories

The Bureau of Cannabis Control has so far only issued licenses for 28 testing laboratories in all of California. These laboratories tend to be located in cities that serve a large amount of commercial cannabis activity in the surrounding area such as Eureka, in Humboldt County, and Salinas, in Monterey County. There are currently licensed testing laboratories in Pasadena, Irvine, Los Angeles, Santa Ana, and 3 in Long Beach.

Though the City of Pomona has an ample supply of available properties within the IC Overlay, the biggest limitation on testing laboratories would be the lack of a sizable cannabis industry within the

immediate area. We do not see a strong argument for why testing laboratories would choose to locate in the City, and so we have not included these in our revenue estimates.

Cannabis Cultivation

The cannabis cultivation market in California has already exceeded its saturation point 3-times over, which suggests that there is not enough room for those growers already licensed, much less new entrants into the market. As of August 31st, the CalCannabis Division of the California Department of Food and Agriculture has issued 4,497 cultivation licenses statewide. 154 of these licenses are for cultivators in Los Angeles County, and 151 are in Riverside County.

The Act does not specifically disallow outdoor or mixed-light cultivation, but we believe that the most likely scenario is that any cannabis cultivation in the City of Pomona pursuant to the Act would almost certainly be indoors.

The initiative applies a tax of \$5 per square foot on all commercial cannabis activities, including cultivation. A square footage tax is the most common tax structure for cultivation, but the initiative is nonetheless out of step with common practices. Tax rates for cultivation commonly vary between outdoor, mixed-light and indoor, in recognition of the greater number of harvest cycles that are possible with mixed-light or indoor cultivation. Outdoor cultivation typically yields one harvest per year, while mixed-light yields 3, and indoor yields 4 or 5 harvests, or even more in some cases. For this reason, mixed-light cultivation is commonly taxed at a higher rate than outdoors, and indoor cultivation is taxed at a higher rate than mixed-light.

The most common range of tax rates for indoor cultivation is \$7 to \$10 per square foot of cannabis canopy. The \$5 rate proposed by the initiative is well below that. However the initiative specifies that the rate shall be applied *“per square foot of the interior of the premise(s) occupied by the cannabis business”*. This is a very different measure than a rate that applies only to the actual amount of cannabis canopy. Though the language of the initiative is vague, it would appear to apply the tax to *all* interior spaces, including not just the canopy, but also the walkways and empty spaces, offices, restrooms, processing space and any and all other spaces in the cannabis cultivation facility. This would likely make the taxable area anywhere from double to triple the amount of space commonly included in a tax on canopy area.

The table below shows the range of revenues that could be generated from a tax on cannabis cultivation of \$5 per square foot, applied to an average cultivation facility of 30,000 square feet. 2 cultivation facilities would generate \$300,000 in annual revenue for the City, 4 facilities would generate \$600,000, and 6 facilities would generate \$900,000. By comparison, a base rate of \$7 per square foot applied to only the actual canopy area (assuming 65% of gross floor area) would generate from \$273,000 to \$819,000. These projections are shown in Figure 4.

Figure 4:

Cannabis Cultivation						
Cultivation	# of Licenses	Gross Receipts	Avg Square Footage	Total Square Footage	Revenue @ \$5 per Square Foot	Revenue @ \$7/sf Actual Canopy Area
Cultivation	2	\$2,000,000	30,000	60,000	\$300,000	\$273,000
Cultivation	4	\$2,000,000	30,000	120,000	\$600,000	\$546,000
Cultivation	6	\$2,000,000	30,000	180,000	\$900,000	\$819,000

Legal and Regulatory Background for California

The legal and regulatory status of cannabis in the State of California (“State”) has been continually evolving ever since the passage of Proposition 215, the Compassionate Use Act of 1996 (“the CUA”), which de-criminalized the use, possession and cultivation of cannabis for qualifying patients and their primary caregivers when such use has been recommended by a physician. The CUA did not create any regulatory program to guide implementation, nor did it provide any guidelines for local jurisdictions to establish their own regulations.

The lack of legal and regulatory certainty for medical marijuana (or cannabis) continued for nearly 20 years, until the passage of the Medical Cannabis Regulation and Safety Act (“MCRSA”) in October of 2015. MCRSA created a State licensing program for commercial medical cannabis activities, while allowing counties and cities to maintain local regulatory authority. MCRSA required that the State would not issue a license without first receiving authorization by the applicable local jurisdiction.

Under MCRSA, commercial medical cannabis activities are regulated by a variety of State agencies. The California Department of Food and Agriculture (CDFA) established a new CalCannabis division, which will create, issue, and suspend or revoke licenses for the cultivation of medical cannabis. The Bureau of Medical Cannabis Regulation (later renamed the Bureau of Cannabis Control, or BCC) in the Department of Consumer Affairs, will administer, enforce, create, issue, renew, discipline, suspend, and/or revoke licenses for distributors, testing laboratories, and retailers. The California Department of Public Health’s newly created Manufactured Cannabis Safety Branch (MCSB), will license cannabis product manufacturers, and will develop standards for the production and labeling of all medical cannabis products.

On November 8, 2016, the voters of the State of California approved Proposition 64, the Adult Use of Marijuana Act (“the AUMA”), which allows adults 21 years of age or older to legally grow, possess, and use marijuana for non-medical purposes, with certain restrictions. The AUMA requires the State to regulate non-medical marijuana businesses and tax the growing and selling of medical and non-medical marijuana. Cities and counties may also regulate non-medical marijuana businesses by requiring them to obtain local permits or restricting where they may be located. Cities and counties may also completely ban marijuana related businesses if they so choose.

On June 27, 2017, the State of California passed SB 94, which repealed MCRSA and incorporated certain provisions of MCRSA into the licensing provisions of AUMA. These consolidated provisions are now known as the Medicinal and Adult-Use Cannabis Regulation and Safety Act (MAUCRSA). MAUCRSA revised references to “marijuana” or “medical marijuana” in existing law to instead refer to “cannabis” or “medicinal cannabis,” respectively. MAUCRSA generally imposes the same requirements on both commercial medicinal and commercial adult-use cannabis activity, with certain exceptions.

All State license types other than Type 8 Testing Laboratories shall be designated either “A” for Adult Use or “M” for Medical”. A single licensee will be allowed to hold both A and M licenses, but it’s unclear whether they will be able to operate both on the same premises.

MAUCRSA incorporated the Type 5, 5A and 5B cultivation licenses from AUMA, which will allow for cannabis farms of unlimited size. No Type 5 licenses will be issued before 2023, however, and local jurisdictions will still retain the authority to disallow or limit the size of cannabis cultivation. It is anticipated that CDFA will limit the number of Type 5 licenses, but this is not yet clear.

AUMA and MAUCRSA eliminated the Type 12 Cannabis Transporter license type from MCRSA. Instead, cannabis cultivators, manufacturers and retailers (but not testing laboratories) are now allowed to

transport their own product, provided they have a separate distributor license. Independent cannabis distributors will likely pick up a larger portion of that business, too. In its place, MAUCRSA incorporated the Type 12 license for cannabis “Microbusinesses” from AUMA, which allows a combined non-medical cannabis business with up to 10,000 square feet of cultivation, and which can manufacture, distribute and sell their product on-site to retail customers, provided they meet all of the individual license requirements for all of the activities they choose to undertake.

MAUCRSA also made a fundamental change to the local control provisions. Under MCRSA, an applicant could not obtain a State license until they had a local permit. Under MAUCRSA, an applicant for a State license does not have to first obtain a local permit, but they cannot be in violation of any local ordinance or regulations. The State licensing agency shall contact the local jurisdiction to see whether the applicant has a permit or is in violation of local regulations, but if the local jurisdiction does not respond within 60 days, then the applicant will be presumed to be in compliance and the State license will be issued.

On September 16, 2017, Governor Brown signed AB 133, which makes a number of major and minor “clean up” changes to the State’s regulations, most notably regarding vertical integration. MAUCRSA authorizes a person to apply for and be issued more than one license only if the licensed premises are separate and distinct. With the passage of AB 133, a person or business may co-locate multiple license types on the same premises, allowing a cultivator to process, manufacture or distribute their own product from a single business location. This includes the allowance to cultivate, manufacture, distribute or sell cannabis for both medical and adult use from a single location. However, these allowances are still subject to local land use authority, so anyone seeking to operate two or more license types from a single location would be prohibited from doing so unless local regulations allow both within the same zone.

Most recently, on November 16, 2017, the three State licensing agencies simultaneously issued emergency regulations to implement these many new laws. These emergency regulations were closely based upon draft regulations that had been released for review the previous Spring. Those draft regulations were withdrawn after the passage of SB 94, as they had been based upon the now-defunct MCRSA. The draft regulations made a number of interpretive changes to the regulatory framework defined by the various pieces of legislation. Most of these were small, but some are more significant.

The table on the following page lists the 30 different license types currently available from the State. Of these, 29 are available under either A (Adult Use) or M (Medical). Only the Type 8 Testing license does not distinguish between these categories. All told, there are 59 different licenses and variations available.

State License Types Under MAUCRSA					
Type	Activity	Description	Details	Licensing Agency	Notes
1	Cultivation	Outdoor; Specialty, Small	Up to 5,000 sf, or 50 plants on non-contiguous plots	CDFA	A, B
1A	Cultivation	Indoor; Specialty, Small	501 sf - 5,000 sf	CDFA	A, B
1B	Cultivation	Mixed-Light; Specialty, Small	2,501 sf - 5,000 sf	CDFA	A, B, C
1C	Cultivation	Outdoor/indoor/mixed; Specialty Cottage, Small	Up to 25 plants outdoor; up to 2,500 sf mixed light; up to 500 sf indoor	CDFA	A, B, C
2	Cultivation	Outdoor; Small	5,001 sf - 10,000 sf	CDFA	A, B
2A	Cultivation	Indoor; Small	5,001 sf - 10,000 sf	CDFA	A, B
2B	Cultivation	Mixed Light, Small	5,001 sf - 10,000 sf	CDFA	A, B, C
3	Cultivation	Outdoor; Medium	10,001 sf - one acre	CDFA	A, B, D
3A	Cultivation	Indoor; Medium	10,001 sf - 22,000 sf	CDFA	A, B, D
3B	Cultivation	Mixed-Light; Medium	10,001 sf - 22,000 sf	CDFA	A, B, C, D
4	Cultivation	Nursery	Seeds, clones, immature plants only	CDFA	A, B
5	Cultivation	Outdoor; Large	Greater than 22,000 sf	CDFA	A, B, E
5A	Cultivation	Indoor; Large	Greater than 22,000 sf	CDFA	A, B, E
5B	Cultivation	Mixed-Light; Large	Greater than 22,000 sf	CDFA	A, B, C, E
	Cultivation	Processor	Trimming, drying or packaging of non-manufactured cannabis only	CDFA	A, B, F
6	Manufacturer 1	Extraction; Non-volatile	Non-volatile extraction only, infusion, packaging and labeling	MCSB	A, B
7	Manufacturer 2	Extraction; Volatile	Volatile or non-volatile extraction, infusion, packaging and labeling	MCSB	A, B
N	Manufacturer	Infusion for Edibles, Topicals	No extraction allowed	MCSB	A, B, F
P	Manufacturer	Packaging and Labeling	No extraction allowed	MCSB	A, B, F
S	Manufacturer	Mfg. in a shared use facility	Cannot exceed \$1 million/year	MCSB	A, B, F
8	Testing		Shall not hold any other license type	BCC	A
9	Retailer	Delivery only	No storefront allowed	BCC	A, B
10	Retailer	Retail sale and delivery		BCC	A, B, F
11	Distributor		Various categories based on size	BCC	A, B
12	Microbusiness	Cultivation, Manufacturer 1, Distributor and Retailer	< 10,000 sf of cultivation; must meet requirements for all license types	BCC	A, B
	Self-Distribution		Distribution of own cannabis or cannabis products only	BCC	A, B, F
	Event Organizer		Up to 10 cannabis events annually	BCC	A, B, F
CDFA	California Department of Food and Agriculture, CalCannabis Division				
MCSB	California Department of Public Health, Manufactured Cannabis Safety Branch				
BCC	Bureau of Cannabis Control				
A	All license types valid for 12 months and must be renewed annually				
B	All license types except Type 8 Testing must be designated either "A" (Adult Use) or "M" (Medical)				
C	Mixed-light cultivation licenses classified as either Tier 1 (6 watts/sf or less) or Tier 2 (6 watts/sf up to 25 watts/sf)				
D	A person shall be limited to 1 Medium license of any type until January 1, 2023				
E	No Type 5 licenses shall be issued before January 1, 2023				
F	Established by licensing agencies through rulemaking process				

The emergency regulations established a number of new license types, which fill in some gaps in the industry chain. CalCannabis established a separate Processor license for facilities which conduct only the drying, curing, trimming, grading, packaging or labeling of non-manufactured cannabis products. CalCannabis also established two tiers for all Mixed-Light cultivation sizes. Tier 1 applies to cultivators which use 6 watts per square foot of supplemental light or less, while Tier 2 applies to cultivators which use between 6 watts and 25 watts per square foot.

The Bureau of Cannabis Control established a new Type 9 license for Non-Storefront Retailers which conduct cannabis sales exclusively by delivery, as well as a Self-Distribution license for cultivators or manufacturers which wish to distribute only their own product. The Bureau also created a system for permitting cannabis events, where cannabis will be sold or consumed, and a license type for Event Organizers. Permits for cannabis events may only be issued to persons or businesses holding an Event Organizer license.

The Manufactured Cannabis Safety Branch created three additional manufacturing license types. The Type N license is for manufacturers that produce edible or topical products using infusion or other processes, but that do not conduct extractions. The Type P license is for manufacturers that only package or repackage cannabis products or label or relabel the cannabis product container. The Type S license is for manufacturers who conduct commercial cannabis activities at a shared use facility, as defined in Section 40190.

State Tax Considerations

To determine what local tax rates might be most appropriate, they must be considered in the context of other taxes imposed by the State. Any local taxes will be in addition to those taxes applied through the Adult Use of Marijuana Act (AUMA), which imposes both a 15% excise tax on purchases of cannabis or cannabis products and a separate cultivation tax on harvested cannabis that enters the commercial market, as well as sales tax. Taxes are most commonly expressed as a percent of price or value, so some method of conversion is necessary to allow development of an appropriate cultivation tax based on square footage.

Cumulative Cannabis Taxes- HdL Companies			
Category	Amount	Increase	Cumulative Price
Producer Price	\$1,000	\$1,000	\$1,000
State Cultivation Tax	\$9.25/oz	\$148	\$1,148
Local Tax	2.50%	\$25	\$1,173
Batch Testing	\$50/lb, + 0.50%	\$55	\$1,228
Wholesale Price w/ Taxes		\$1,228	
Total Tax at Wholesale		\$228	
Tax as %		22.80%	
Manufacturer Markup	20.00%	\$246	\$1,474
Local Tax	4.00%	\$59	\$1,533
Total Manufacturer Price		\$1,533	
Total Taxes at Manufacturer		\$287	
Total Tax as %		18.72%	
Distributor Markup	30.00%	\$460	\$1,992
Local Tax	3.00%	\$60	\$2,052
Total Distributor Price		\$2,052	
Total Taxes at Distributor		\$347	
Total Tax as %		16.90%	
Retailer Markup	100.00%	\$2,052	\$4,104
Local Tax	6.00%	\$246	\$4,350
State Excise Tax	15.00%	\$616	\$4,966
Total Retailer Price		\$4,966	
Total Taxes at Retail		\$1,209	
Total Tax as %		24.34%	
CA Sales Tax (non-medical)	6.25%	\$310	\$5,276
Local Sales Tax	1.00%	\$50	\$5,326
Total Taxes at Retail		\$1,569	
Total Tax as %		29.45%	
Total Local Tax		8.25%	\$439.62

The State cultivation tax is set at a rate of \$9.25 per ounce of dried flower or \$2.75 per ounce of dried leaf. Because these rates are set per ounce, rather than as a percentage of price paid, the tax is the same whether the cultivator is producing commercial-grade cannabis at \$500 per pound or top-grade cannabis at \$2,500 per pound. The cultivator is generally responsible for payment of the tax, though that responsibility may be passed along to either a manufacturer or distributor via invoice. at the time the product is first sold or transferred. The distributor is responsible for collecting the tax from the cultivator upon entry into the commercial market, and remitting it to the Board of Equalization.

The cultivation tax of \$9.25 per ounce of dried flower is equivalent to \$148 per pound. Just a year ago, HdL would have assumed an average wholesale market price for dried flower of around \$1,480 per pound, which would make that \$148 equal to 10% of value. Since then, however, prices have plummeted. Competitive market forces enabled by legalization have brought the average price for indoor cannabis down to around \$1,000 per pound, or even less (cannabis prices vary greatly based on quality of the product)^{xv}.

Conversations with cannabis industry trade groups suggest that the cumulative tax rate on the end product should remain at or around 30%. Higher rates create too much price disparity between legal and illegal cannabis, making it harder for the regulated industry to compete with the black market. Higher local tax rates can also make a county or city less attractive to the industry, especially for manufacturers and distributors, which have greater flexibility in choosing where to locate. We believe that setting rates that adhere to this 30% rule will help keep the local cannabis industry competitive with other cultivators across California, thus encouraging the transition to a legal industry.

The above table shows how the cumulative tax rate on adult-use cannabis builds as the product moves towards market. The value of the product increases as it moves through the supply chain towards market, with manufacturers, distributors and retailers each adding their own markup. Testing laboratories do not add a direct markup to the product, but the cost of testing and the loss of a small test sample can add around \$55 per pound. Any or all of these activities may be taxed.

This model assumes a hypothetical case where cultivation, manufacturing, testing, distribution and retail sale all happen within the same jurisdiction and are thus all subject to that jurisdiction's tax rates. In actuality, this is unlikely to be the case. Manufacturers may work with product purchased from anywhere in California, and may sell their product to retailers elsewhere, as well. The cumulative tax burden for any product at retail sale will almost always include a variety of tax rates from numerous jurisdictions.

General Economic Impacts

Discussion of regulating and taxing the cannabis industry can too often overshadow the larger jobs and economic development issues that typically accompany efforts to attract new industry. Word that a new business or industry is looking to bring hundreds of new jobs to a community is more commonly met with open arms and offers of tax incentives. The cannabis industry is perhaps completely unique in that the inherent jobs and economic development benefits are welcomed more grudgingly and met with the disincentive of special taxes.

As with any other industry, the cannabis industry does not exist in a vacuum. Those businesses that actually grow, process, manufacture, distribute and sell cannabis products support a wide variety of other businesses that may never touch the actual product itself. Cultivators support garden supply stores, green house manufacturers, irrigation suppliers, soil manufacturers, and a wide variety of contractors including building and construction, lighting and electrical, HVAC, permitting, and engineering. Manufacturers support many of these same businesses, plus specialized tooling and equipment manufacturers, and product suppliers for hardware, packaging, and labeling. All of these businesses support, and are supported by, a host of ancillary businesses such as bookkeepers, accountants, tax preparers, parcel services, marketing and advertising agencies, personnel services, attorneys, facilities maintenance, security services, and others.

The economic benefits are not limited to those in the cannabis industry, itself. Cultivators and manufacturers bring new money into the community by selling their products into a statewide market. Their profits and the salaries they pay move into the general local economy, supporting stores, restaurants, car dealerships, contractors, home sales and other businesses. In Humboldt County, a study done in 2011 found that at least \$415 million dollars in personal income was entering the local economy annually from the cannabis industry, roughly equal to one quarter of the County's entire \$1.6 billion economy.

While Humboldt is likely an outlier, research done by HdL for other clients suggests that other counties and cities see similar, if smaller, economic inputs from this industry, with some in the range of \$100 million dollars or more annually. As this industry adapts to a legal paradigm, the challenge for some counties will be mitigating and minimizing the economic loss as the black market slowly fades away.

Because of the emerging nature of this industry, it is currently populated primarily (but not solely) by small, independently-owned businesses. Numerous studies have demonstrated that locally-owned, independent businesses recirculate a far higher percentage of every dollar back into the local community than large, corporately-owned businesses do. The same economic development arguments that are used to support other independent, locally-owned businesses apply to this industry, too. It is estimated that every \$1 spent at a medical or adult-use cannabis retailer generates an additional \$3 in economic benefits to the host city or county^{xvi}. The City should expect to see comparable economic benefits from cannabis businesses as with any other new businesses, separate from any tax revenue that may be generated.

Industry experts believe that California's current statewide production is five to eight times higher than the State's population consumes^{xvii}, a figure derived from the SRIA done for CDFA's cannabis cultivation program. That assessment found that California's cannabis industry produces some 13.5 million pounds of cannabis per year, which would be enough to provide over half a pound of cannabis per year for every Californian 21 and over. However, the assessment also found that California's 4.5 million cannabis users only consume about 2.5 million pounds of cannabis per year. A separate study performed for the California Cannabis Industry Association put statewide consumption even lower, at 1.6 million

pounds^{xviii}. The majority of the cannabis produced in California is presumably supplying other states that do not have legalized cannabis.

The Bureau of Cannabis Control projects that more than half of the adult use purchases currently in the black market will transition to the legal market to avoid the inconvenience, stigma and risks of buying unknown product through an unlicensed seller^{xix}. Essentially, the easier, cheaper and more reliable it is for consumers to access quality cannabis legally, the less reason they will have to purchase it through the black market. That same study projects that 60% of those currently in the legal, medical cannabis market will shift to the adult use market, for the reasons noted above. The availability of legal adult use cannabis is also anticipated to produce a small 9.4% increase in consumer demand.

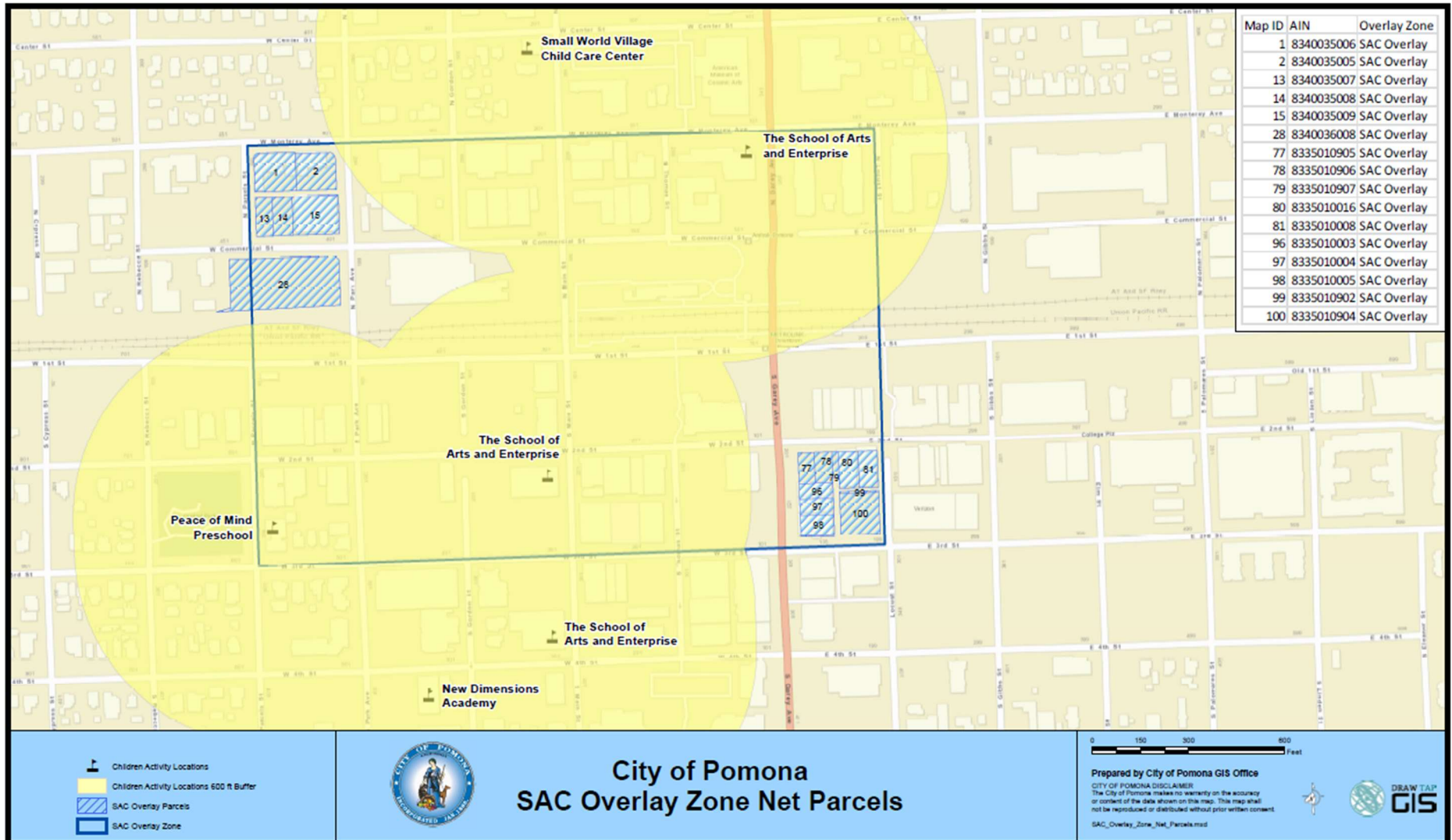
Given these figures, cities and counties should expect to see some increase in retail sales as these shifts occur in the market. More significantly, the existence of legally permitted cannabis retailers will allow a far greater portion of existing cannabis sales to be captured by legal (and tax-paying) retailers.

The shift from medical to adult use sales is not expected to change the overall volume of sales, only the category into which they fall. Once the legal, adult use market is properly functioning, it is anticipated to capture about 61.5% of the overall cannabis market in California. The legal medical cannabis market is projected to decline to just 9% of the overall market. The other 29.5% is expected to remain in the black market^{xx}.

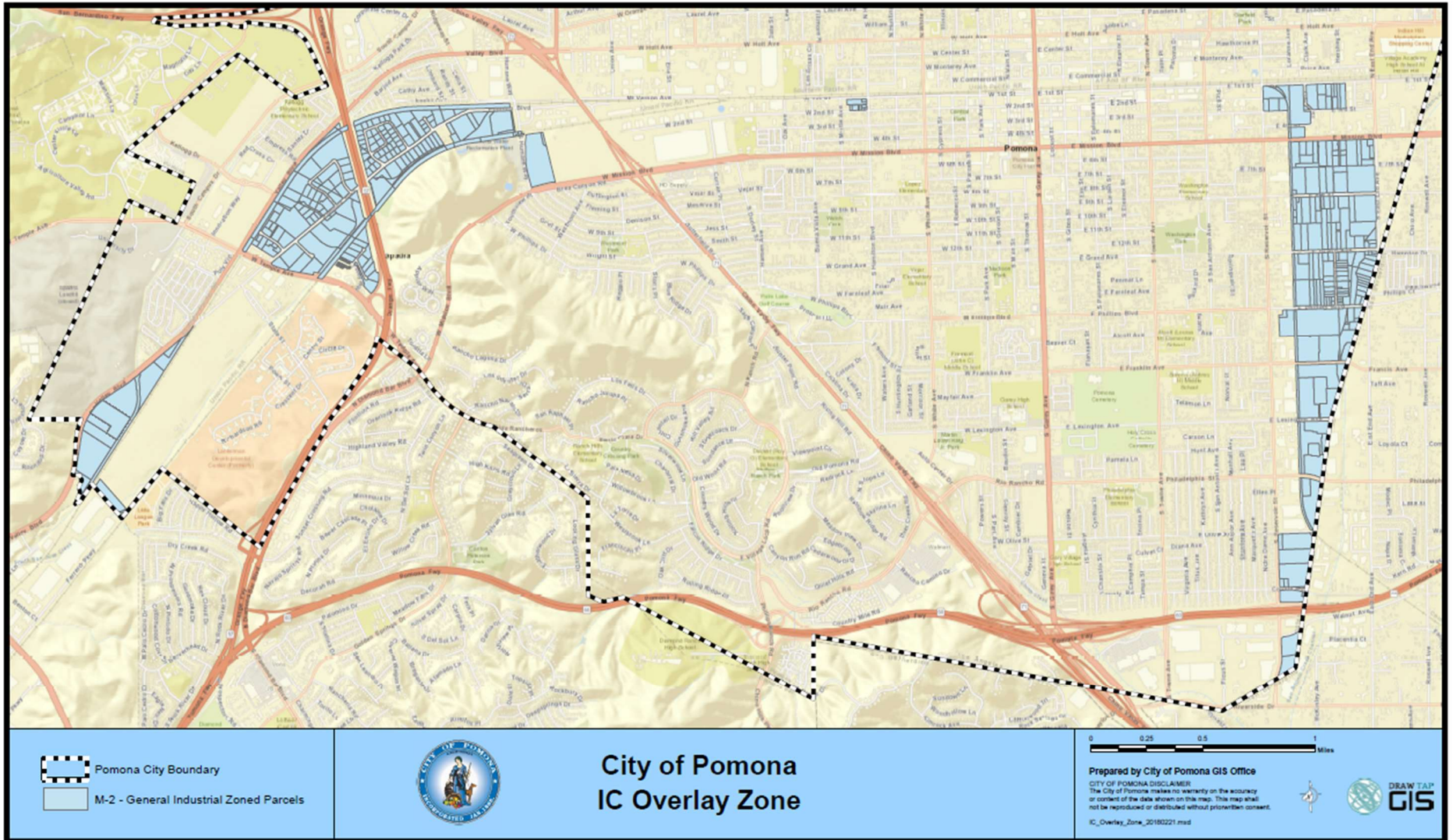
These numbers only apply to the 1.6 million to 2.5 million pounds of cannabis that is consumed in California, representing the potential size of the legal cannabis market. If 29.5% of the cannabis consumed in California continues to come from the black market, then the size of the market for legal cannabis must be adjusted downward accordingly. This would reduce the size of the legal market in California to between 1.13 million and 1.76 million pounds.

California has been issuing temporary licenses for commercial cannabis businesses since the beginning of the year. As of May 30th, CDFA's CalCannabis division has issued 3,664 cultivation licenses, capable of producing over 7.3 million pounds of cannabis per year. That amount is over three times more cannabis than the State's legal buyers are anticipated to consume. Were the State to issue no more licenses, we would expect a failure rate of at least 60% in the first two years.

Safe Access Cannabis Overlay with Sensitive Use Buffers (Prepared by City of Pomona)



Industrial Cannabis Overlay (Prepared by City of Pomona)



**List of Parcels Within the Safe Access Cannabis Overlay
Likely Able to Support Commercial Cannabis Businesses**

Safe Access Cannabis Overlay with Sensitive Use Buffers				
APN	Zoning	Parcel Size	Bldg Size	Current Use
8335-010-003	CSP	4,977	4,795	Commercial /retail
8335-010-004	CSP	5,524	11,650	Retail
8335-010-005	CSP	6,787	22,862	Commercial Hotel/Retail
8335-010-008	CSP	6,852	6,190	commercial
8335-010-016	CSP	6,992	20,780	commercial
8335-010-902				
8335-010-904	CSP	15,900		City parking lot
8335-010-905	CSP	4,940		City parking lot
8335-010-906				
8335-010-907				
8340-035-005	DSP	14,288	4,050	commercial
8340-035-006	DSP	15,550	6,780	commercial
8340-035-007	DSP	6,240		commercial
8340-035-008	DSP	7,560		commercial
8340-035-009	DSP	17,400	15,312	commercial
8340-036-008	DSP	53,780		vacant (entitled for affordable hsg)
DSP = Downtown Specific Plan				
CSP = Corridors Specefic Plan				

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- ^{xiii} *"Economic Costs and Benefits of Proposed Regulations for the Implementation of the Medical Cannabis Regulation and Safety Act (MCRSA)"* (February 23, 2017) University of California Agricultural Issues Center
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^{xx} *"Economic Costs and Benefits of Proposed Regulations for the Implementation of the Medical Cannabis Regulation and Safety Act (MCRSA)"* (February 23, 2017) University of California Agricultural Issues Center