

Notes from Stakeholder Meeting

August 2, 2017

Updates:

- Proposed change in Residential Cultivation ordinance in order to align with State law, provide greater clarity in enforcement. Proposed ordinance will reduce 400 sq. ft. allowed structure to six living plants per household.
- Rewrite of the code pertaining to cannabis businesses. Changes are 99% technical, non-substantive changes and merely code clean-up.
- Proposal to create ordinance around distribution, retail with delivery, creation of a cannabis permit, tiered manufacturing permit, ability to re-issue a surrendered or revoked permit, and background checks.
- Distribution:
 - Zoning requirements similar to cultivation and manufacturing.
 - Will require CUP. Same distance requirements, for school, and hearing before the Planning and Design Commission if less than 600 ft. from parks. Background checks for drivers. City-issued ID cards.
- Delivery: State makes delivery a function of a dispensary.
 - Proposed ordinance will give storefront dispensaries the option of pursuing delivery as a function. The City will accept applications for, non-storefront, delivery-only dispensaries.
 - Existing dispensaries will need to amend their CUP and their BOP and meet all other requirements. New non-storefront dispensaries will also require CUP.
 - Cleanup of Title 17 to make changes to dispensary code, including aligning distance requirements for dispensaries to cultivation, replacing the term “registered” with the actual number of 30.
 - Co-location will be allowed. Currently prohibited under the Trailer Bill, but expects a change in the State law in the coming months.
 - Background checks for all drivers, will be issued a City ID.
 - Vehicles must not be more than 10 years old.
 - Can only carry \$3,000 worth of product.
 - Drivers shall not be armed. If delivery is so dangerous that it requires drivers to be armed, then we shouldn't be doing it
 - Comply with State's track-and-trace requirements.
 - Require a tracking system for owners or managers to know where their drivers are.
- Cannabis CUP: Proposal to create a single CUP for all cannabis business except dispensaries. Some of activities are not so dissimilar that they cannot be grouped. There will still be a public noticing requirement, so neighbors will still be involved.

- Proposed ordinance to remove CUP requirement for testing facilities: Testing is an important part of the supply chain, and only a few applications are in place. Proposing to remove CUP requirement as there is only a minimal amount of cannabis on site.
- Remove CUP requirements for smaller manufacturing: Committee directed staff to bring the item to Council with some options. There were concerns with ensuring that the City is protecting the public.
- Tiered Manufacturing: The City currently has one manufacturing permit. Proposal will create a tiered manufacturing permit specific to the manufacturing activity, i.e. Type 1 for nonvolatile extraction, Type N manufacturer of edibles and Type P for packaging and labeling. Permits will also be tiered according to gross receipts. Current fee is \$30,910. Finishing fee schedule evaluation and bring it before Budget and Audit Committee. Under the proposed manufacturing system, the permit fees for the smallest businesses will be close to \$5,000.
- Ability to re-issue a surrendered or revoked permit: This will City to re-issue a permit surrendered by a dispensary who cannot continue to operate in order to keep the current number of dispensary permits at 30. Staff will develop a process, which will likely be similar to a Request for Qualifications or RFQ and subsequently a lottery of those that are qualified.
- Background checks: The goal is to align the with the State. For ownership, the State's threshold is 20 percent, the City's is 10. State doesn't not have background checks for employees. Staff was directed by Law and Legislation to provide Council with options. Options may include increasing the number of crimes that are appealable, reduce the disqualifiers, or pass the burden of background check to employers.
- Adult Use: Will be discussed at next month's Law and Legislation meeting, specifically what the roll out of adult use should look like. There will also be community meetings around the issue ahead of Jan 2nd when the State is expected to issue retail licenses. The components of adult use include:
 - Retail – should the City allow the existing dispensaries to sell it?
 - Onsite consumption – Café, or onsite consumption at a dispensary or a BYO model. Where should they be? What would be the additional requirements beyond the dispensary requirements.
 - Temporary Event Permits – staff anticipates some demand to have it.

Questions and Answers:

Q: What is your interpretation of co-location, is it a physical wall between two co-locators?

A: There are technical solutions as to how two or three people can operate out of one warehouse. We will follow State law as to whether it requires a wall or not. A wall seems to be a low barrier to the ability to co-locate.

Q: For employee background checks, how quickly might that be put in the place?

A: Exact date is not available. Some pieces on our policy priorities will take longer, and background check could be one of them.

Q: For temporary event permits for pop up sessions which can be some new revenue that the city can capitalize on, is it going to be the same process and handled by the same office that handles the city's special event permits?

A: We don't know yet. We currently have a special event process which lives in Parks. We'll still have to figure it out, and whether or not it can take place in a public space.

Q: On manufacturing, people who create their concentrates generally have their own packaging, isn't it redundant to create separate permits?

A: A Type 1 permit will allow them to do everything. Type N is only for that particular aspect of the industry.

Q: For manufacturing, will white label manufacturing be allowed?

A: White label manufacturing or creating beverages infused with cannabis will still be considered manufacturing. If they are packaging for somebody else, they would need a Type P permit. The person they're packaging for is going to require a Type N permit.

Q: Ethanol's description varies between jurisdiction, what is it considered in the City of Sacramento.

A: Under the current code, only nonvolatile manufacturing is allowed. The Fire Marshall and I spent some time in Portland and he is comfortable with manufacturing as a means of extraction done in a certain way, particularly cold ethanol extraction. We need to make some technical change in our code to allow ethanol extraction. It is not going to be a blanket permission, but any application that proposes the use of ethanol will still be subject to the Fire Marshall's review.

Q: The current background check requirement disqualifies someone who has been charged or convicted. If you are charged and later found not guilty, does that mean they will still not be qualified to apply?

A: Yes, that's how our ordinance is currently written and I can't speak to why. I don't think that particular part of the code got a lot of discussion that's why we are revisiting so quickly. The Committee recognizes that it needs to be improved and we are coming to Council with options to improve it.

Q: Are you going to have a cap on delivery-only dispensaries and what would the permit fee look like for those? How can non-storefront dispensaries comply with dispensary section of the code which would not necessarily apply to a non-storefront retail?

A: There has not been a talk about a cap. We don't know what Council will do. The proposed fee is \$23,000 for delivery. The dispensary code currently has things that will not apply to a non-storefront, although for the most part, it will have the same requirement for security, odor, plus some additional ones. We will require a traffic statement, ask you how many deliveries you expect to make, provide ingress/egress, routes in and out, on your application.

Q: Would a cannabis company be able to work with a staffing company who will staff employees and contract them out to cannabis businesses?

A: Not for delivery and distribution because the State requires them to be employees.

Q: What is the timeline for delivery-only dispensaries and distribution?

A: If the ordinance is heard by City Council in late September, we should be taking applications shortly after that.

Q: Where is testing requirement in the supply chain?

A: On the distribution. Distribution will pick up from cultivation, take title in some cases, take it to a testing facility, prior to it being dropped off at its next location.

Q: Does the proposal to have one CUP apply to all, or do they to be a large company or a smaller operation?

A: It will apply to all, with the exception potentially of smaller manufacturers, which we are proposing not to have a CUP requirement.

Q: Is there a limit to the number of other permits a cultivator can apply for?

A: The limit was only on the MCRSA language, which no longer applies. You can apply for multiple permits with the exception of testing, which should be independent.

Q: Can a cultivation business also apply for delivery service and manufacturing?

A: Yes.

Q: If the City has a cap on dispensaries, will a coffee shop be considered a dispensary?

A: There are two models, one is a dispensary model like in Amsterdam, where you're allowed to walk in, buy and consume it onsite. One is the BYO model where you go to a coffee shop and consume it. It will be a different permit than a dispensary.

Q: For the renewal fees for delivery, \$20,000 renewal fee is high. Is there a process that was used to arrive at that amount?

A: Our fees are calculated around the cost of what enforcement is going to be, using some educated assumptions around the cost of enforcement. It can go down or up depending on the actual cost.

Q: Will you be tracking data on enforcement to show that X amount of dollars were spent on delivery only?

A: We will be tracking expenses for the all parts of the industry.

Q: Is the cultivation license fee annual? How long is the license approved for?

A: CUP is one-time. BOP is annual. For cultivation, there are 3 different tiers with different fees.

Q: Are you going to lower the prices for cultivation fees since you are not getting that many applications?

A: We currently have 110 currently CUP applications for cultivation. We have received far fewer manufacturing, and we hope the tiered manufacturing permits will encourage more applicants from the manufacturing sector.

Q: Are there any incentives for veteran-owned businesses?

A: We don't have a separate track for that.

Q: Distribution and transportation responsible for the track and trace system. Is there a specific software that will be required?

A: Track and trace will be required at all levels. State's system is called Metric, which incorporates a mix of different methodologies...RFID tags, bar codes, specific labels that manufacturers and packagers and labelers have to have before products are sent out. All products beginning at cultivation will be bar coded all the way until it ends up in a vape pen.

Q: Is delivery a part of distribution?

A: Under the trailer bill, transportation has been folded into distribution. Movement of product from Point A to Point B will be done by a distributor. Even if you're a cultivation that do your own delivery, you still require a distribution license to move products to the dispensary.

Q: Are there insurance requirements for delivery?

A: Yes. For now, we are using the state regs as our template, but the city is open to suggestion on best practices.

Q: For the set of drawings that we submit as part of security plans, do we need cameras, define your own line of sight, etc?

A: Each building is going to be different. You are required to put forth your security plan and then we will make comments and work it out on an individual basis.

Q: Are taxes value added or based on gross receipts?

A: All cannabis businesses are subject to 4% gross receipts tax.

Q: Can acetone, ethanol, isopropyl be used in manufacturing?

A: The Fire Marshall will make the determination. Ethanol and Isopropyl has been recognized as needed in the nonvolatile environment.

Q: What is the timeframe for the CUP process, if you met the June 30th deadline? Will they be approved before January so they can apply for the State?

A: Our hope is a four-to-six-month time frame to process CUPs. The BOP review will not require a significant time.

Q: Do you have any guidelines and enforcement procedures around pricing? What can we expect to be charged by the testing facilities.

A: We don't know how the business model is going to take shape. We are still waiting for the State regs.

Q: Does the City have any policy on advertising, such as billboards, and on buses and in supermarkets?

A: There are some state laws around it. I don't think the city has anything set at this point.

Q: How is the tiered manufacturing based on gross receipts determined? Is it by previous year's taxes?

A: The first year would have to be a projection. Eventually, we will develop a system as you come in and pay your taxes, and if you exceed the threshold, you will have to get a different permit the following year.

Q: Does the City allow alcohol CO2 extraction?

A: CO2 is not a volatile compound. Under our manufacturing code, it is the only one allowed. We will be making an amendment to our current code to allow ethanol in nonvolatile manufacturing.