

APPLICATION FEES & ANNUAL REGULATORY FEES FOR CANNABIS BUSINESSES



City Council Public Hearing—December 18, 2017

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- Thank You to Merced's "Team Cannabis":

- SCI Consulting
 - Neil Hall
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- City Manager Steve Carrigan
- Assistant City Manager Stephanie Dietz
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- Director of Development Services Scott McBride
- Former Police Chief Norm Andrade
- Planning Manager Kim Espinosa ☺
- Planning & GIS Staff
 - Michael Hren
 - Julie Nelson
 - Michael Machado
- Everyone Else Who Contributed



OVERVIEW OF TONIGHT'S MEETING

- How Did We Get Here?
(Background)
- Fee Calculation Methodology
- Proposed Application Fees
- Proposed Annual Regulatory Fees
- Fee Comparison with Other Cities
- Public Hearing
- City Council Action



BACKGROUND

- On November 20, 2017, the City Council introduced **Ordinance #2480**, with a second reading/adoption on December 4, 2017. The Ordinance will become effective on **January 3, 2018**.
- Ordinance #2480 includes:
 - Land Use Table Showing which Businesses are Allowed in Each Zone.
 - Regulations for Cultivation of Cannabis for Personal Use
 - General Regulations & Operating Standards for All Commercial Cannabis Businesses
 - Additional Operating Standards for Dispensaries/Retail Sales, Delivery Services, Manufacturing, Commercial Cultivation, Testing Labs, & Distribution Businesses
 - Commercial Cannabis Business Permit Selection Process for:
 - Dispensaries/Retail Sales (Limited Number of Permits Available)
 - All Other Cannabis Businesses (No Limit on Number of Permits Available)
 - **Fees and Taxes**



20.44.170 (O) Fees And Taxes

- Applicable Fees & Taxes to Cannabis Businesses Include:
 - **Initial Application Fees** for Initial Review (Phase 1) and Final Review (Phase 2) (Due at Initial Application for CCBP)
 - **Application Renewal Fees** (Due Annually)
 - **Commercial Cannabis Regulatory Fee** (Due Annually) to cover the costs of enforcement and monitoring.
 - All Required Taxes, including Sales and Use Taxes, Business, Payroll, etc.
 - Additional Cannabis-Specific Gross Receipts, Excise, Cultivation, or Other Tax Approved by the Voters of Merced. *(By Signing the Application, the Applicant agrees to pay a pro-rata share of the cost of a ballot measure).*



APPLICATION FEE METHODOLOGY

- Based on their experience with other cities, SCI Consulting estimated the **number of hours of City staff time** that would be involved in processing the CCBP applications.
- The fees were then calculated by **multiplying** the **hours** by the **“fully-loaded” hourly rates** for various City staff members that include salary, benefits, and overhead. **Direct costs**, such as the cost of mailing and publishing public hearing notices and performing Live Scans, were also added into the costs.
- For example, it was estimated to take approximately **6.75 hours** of total City staff time to process one application for a CCBP for Phase 1. Tasks included taking in the application and fees, reviewing it for completeness, verifying the zoning and distance from sensitive uses, etc. Based on the hourly rates for the various City staff members involved (mostly Planning staff) and the direct costs, a fee of **\$964** was proposed.

APPLICATION FEE METHODOLOGY (Cont.)

- The same methodology was used for Phase 2 applications:
 - One fee for the **non-merit-based applications** for non-dispensary cannabis businesses
 - One fee for the **merit-based applications for dispensaries** that had a limited number of permits available which was higher because of the extra staff time involved in rating the merit-based applications.
 - Tasks included reviewing/verifying the application materials, preparing detailed background checks of the owners (Police Department task), preparing public hearing notices, preparing staff reports, attending Planning Commission meetings, etc.
- A fee for the annual renewals of CCBP's and for appeals of a denial of a CCBP or annual renewal are also included. The fees range from **\$374** for an appeal to **\$8,577** for a merit-based dispensary application in Phase 2.

PROPOSED APPLICATION FEES

<u>CCBP Application Fees</u>	<u>Proposed Fee</u>
Phase 1 (All Types)	\$964.00
Phase 2 (Merit-Based)	\$8,577.00
Phase 2 (Non-Merit Based)	\$6,250.00
Annual CCBP Renewal	\$2,232.00
Appeal of a CCBP	\$374.00
Appeal of a CCBP Renewal	\$473.00

Note: Application fees are due and payable upon submittal of a Commercial Cannabis Business Permit Application. The amount of the fees shall be adjusted annually (starting on January 1, 2019) to account for inflation by using the Consumer Price Index (CPI). In no event, shall the fees in any year be less than the preceding year.

REGULATORY FEE METHODOLOGY

- Commercial Cannabis Regulatory Fees, based on estimated additional costs of **enforcement and monitoring** associated with cannabis operations.
- The Fee is to be due and payable prior to opening the business and thereafter on or before the anniversary date. These fees will also be adjusted annually per the CPI.
- Again based on their experience with other cities, SCI Consulting **estimated the number of hours** that would be involved in an inspection of a business once in operation.
- Tasks involved in an inspection included verifying whether the business is meeting all the requirements of the City's Ordinance and State Law, including items such as insurance, record-keeping, the "track and trace" system, employee training, community complaints, signage, storage, security monitoring, fire code, etc.
- Based on the estimated hours of City staff and consultant time since the City anticipates hiring consultants to do the majority of the inspections and the hourly rates, **a cost for one inspection was established**. The number of inspections each year for each type of cannabis business was then established to arrive at the final fee. The fees range from **\$6,259** for testing labs to **\$32,595** for a manufacturing facility.

PROPOSED ANNUAL REGULATORY FEES

<u>Annual Regulatory Fees</u>	<u>Proposed Fee</u>	<u># of Inspections/Year</u>
Cultivation--Up to 10,000 SF	\$18,193.00	4
Cultivation--Nursery Only	\$15,275.00	4
Distribution	\$12,556.00	4
Manufacturing	\$32,595.00	4
Retail Sales	\$20,920.00	6
Testing	\$6,259.00	2

Note: The Regulatory Fee is to be due and payable prior to opening the business and thereafter on or before the anniversary date. The Regulatory Fee may be amended from time to time based upon actual costs. The amount of the fees shall be adjusted annually (starting on January 1, 2019) to account for inflation by using the Consumer Price Index (CPI). In no event, shall the fees in any year be less than the preceding year.

FEE COMPARISON WITH OTHER CITIES

- SCI Consulting provided City staff with information about what other cities are charging the cannabis industry at Attachment 2. Although not a comprehensive list, it does provide some context for Merced's proposed fees.
- The annual regulatory fees for monitoring and compliance range widely from **\$1,969** for a distribution business in Shasta Lake to up to **\$201,100** for any cannabis business in Grover Beach.



FEE COMPARISON WITH OTHER CITIES (Cont.)

City/ County	Davis	Green-field	Shasta Lake	Grover Beach	San Jose	Marin County
	Monitoring and Compliance					
Annual License Monitoring	x	x	x	\$201,100	\$131,846	\$12,000
Cultivation	n/a	60,758	\$3,300-\$5,000	x	x	x
Manu-facturing	\$40,818-\$42,359	\$33,936	\$5,365	x	x	x
Distrib-ution	n/a	n/a	\$1,969	x	x	x
Testing	\$20,805	n/a	\$14,702	x	x	x
Retail	\$40,630	\$60,758		x	x	x

City/ County	Davis	Green-field	Shasta Lake
	Misc. / More Specific Fees		
Retail with Delivery	\$41,758		
Local Delivery Only	\$28,034		
Out of town Deliveries	\$8,330		
Amendment Registration Fee		\$962	\$1,280
Comm., Public Health, Safety, Welfare, & Quality of Life		\$15-\$20 per s/f.	

NEXT STEPS



- The Ordinance becomes effective on **January 3, 2018**.
- City Council adopts application fees for Commercial Cannabis Business Permits and the Annual Commercial Cannabis Regulatory Fee by Resolution (December 18, 2017).
- City Council will be asked to adopt the Merit-Based Selection Criteria on January 2, 2018.
- January 2018 Workshop for Potential Applicants
- Deadlines for the Initial Applications for Commercial Cannabis Business Permits will Need to be Established.
- Work will Need to Begin on a Tax Measure for a June or November 2018 Ballot if that is Desired.

CITY COUNCIL ACTION

- After the public hearing, the City Council should consider adoption of a motion to:
 - Adopt Resolution No. 2017-67, "A Resolution of the City Council of the City of Merced, California, Approving Application Fees for Commercial Cannabis Business Permits and Annual Regulatory Fees for Commercial Cannabis Businesses."



QUESTIONS



PUBLIC HEARING

