



CANNABIS PROGRAM
MONTEREY COUNTY

Board of Supervisors
Agenda Item No. 22-438
May 17, 2022

Small Industry Focus Group Outcomes

Background information

- Staff shared industry interest in ongoing discussions of tax/local requirements.
- Cannabis Committee directed staff to schedule and conduct small focus groups.
 - 12 meetings scheduled with currently/nearly operational industry members.
 - 65% participation.
 - 1 meeting scheduled with 7 industry attorneys, agents, and consultants.
 - 100 hours of Program staff time to plan/host
 - Executive Director of Monterey County Cannabis Industry Association attended all.
 - Additional meetings will be scheduled with outdoor cultivators and retailers.
 - Staff summarized industry feedback into six topics.
- Program Manager met with ACAO, HCD Director, EHB Chief, and MCRFD Chief.
 - Reviewed outcomes, discussed recurring themes, and planned improvements.

Small Industry Focus Group Outcomes: Staff Conclusions

1. Relationships between commercial cannabis operators and respective property owners

- Most cannabis operators lease their properties, which often structured as triple net, so include:
 - Operational expenses of the property, including infrastructure improvements.
 - Real estate taxes.
 - Building insurance.
 - Maintenance.
 - Rent.
 - Utilities.
- The previous director of the RMA sent out a memo in 2018, which stated that the County would proactively inspect sites for compliance and to identify any building permits required to legalize existing structures on the property.

Small Industry Focus Group Outcomes: Staff Conclusions

2. Inconsistency of compliance inspections

- Operators are frustrated by frequent inconsistencies and unclear expectations.
 - One inspector will not call out a violation while another believes it is a violation.
 - Inspectors constantly find new violations that were not identified in prior visits.
- Significant costs to obtain permits and complete construction to cure violations.

Small Industry Focus Group Outcomes: Staff Conclusions

3. Costs and timelines associated with required infrastructure improvements

- Neither the County nor the Industry realized how many requirements were necessary for compliance.
 - Complex land use permit process, including meeting conditions of approval.
 - Complex building permit process, which often requires professionals to prepare.
- Many operators have not met one or more infrastructure improvement requirements.
 - Fire suppression related to F-1 occupancy processing areas.
 - Heavy nitrate water levels requiring treatment.
 - Energy requirements, including upgrades managed by PG&E.
 - Depressed pricing has affected cash flow, which is essential for completing projects.
 - Material and/or specialized labor shortages have extended completion dates.

Small Industry Focus Group Outcomes: Staff Conclusions

4. Responsiveness of County departments

- Customer service expectations and service levels need improvement.
 - Standardized response times and tracking mechanisms for accountability.
- Planning and building permit processing times need improvement.
- Industry rely on Program staff to gain assistance with planning/building permits.
 - This is due to lack of responsiveness from department staff.
- Many suggested the Program should create a “Case Manager”.
 - This position would be assigned directly to operators and assist with:
 - Meeting compliance requirements.
 - Navigating County departments.
 - Answering questions.
 - Ensuring a timely turnaround of work and reporting.

Small Industry Focus Group Outcomes: Staff Conclusions

5. Federal, state, and local taxes for cannabis operators

- State cultivation tax of \$161/lb. is untenable at 37% of the current market price.
- While state taxes remain the primary issue, there is room for additional local relief:
 - Operators suggest a canopy tax that would trigger based on profitability.
 - The canopy tax, like the state cultivation tax, does not consider market pricing.
 - Wholesale price points have declined since July 2021 and remain volatile.
 - The County needs to account for the capital constraints of operators.
 - Extending repayment window would enable them to remain operational.
 - Cultivators would prefer to be billed in arrears to the current assessment method.
 - Does not consider time to cultivate and sell product to offset their tax liability.

Small Industry Focus Group Outcomes: Staff Conclusions

6. Applying regulations differently between traditional agriculture and commercial cannabis

- Operators believe there is parity between traditional agriculture and cannabis.
 - The County's approach to regulating both industries should be similar.
- The cannabis regulatory framework requires compliance inspections
 - Subject other industries to the proactive enforcement of health and building codes.
 - The rigorous application of codes is affecting the industry's ability to remain in business.

Small Industry Focus Group Outcomes: Suggested Course of Action

1. The compliance inspection process has been reviewed and modified.
 - a. Periodic inspections or when deemed necessary will be conducted at any time between the hours of 8:00 am and 8:00 pm.
2. Customer service levels and expectations need to be practical and managed.
 - a. HCD requests responses to a phone call in 24 hours and an e-mail in 48 hours.
 - b. EHB generally require staff to respond to phone calls and e-mails in 24 hours.
3. EHB will give an industry presentation that discusses permanent restroom requirements.
 - a. Program, HCD Director and EHB Bureau Chief met to further discuss a cannabis industry ordinance related to restrooms.
4. Departments should consider a simple process guide for applicants to understand:
 - a. Planning and building permits for HCD.
 - b. Environmental health permits for EHB.
5. The Program will continue to schedule small focus group meetings with the industry.



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Questions