October 23, 2017

SUBJECT
Establishment of Local Cannabis Regulations

RECOMMENDATION
1. Waive First Reading and Introduce an Ordinance Amending Article 59 of the Redwood City Zoning Ordinance by repealing it in its entirety and replacing it with provisions limiting indoor cultivation to six cannabis plants for personal consumption, banning outdoor cultivation, and banning all commercial activity, except for deliveries; and
2. Provide Direction on Future Cannabis Regulations and Activities

BACKGROUND
State of California

Cannabis Regulation

In 2015, California enacted the Medical Cannabis Regulation and Safety Act (MCRSA). MCRSA established a state licensing and regulatory framework for the cultivation, manufacture, transportation, storage, distribution and sale of medical cannabis. MCRSA set a target of implementing the State’s medical cannabis licensing program by January 1, 2018.

On November 8, 2016, California voters passed Proposition 64, the Control, Regulate, and Tax Adult Use of Marijuana Act (AUMA). AUMA legalizes adult use cannabis use by adults age 21 and over, authorizes cultivation of up to six plants for personal consumption, and established a new state licensing and regulatory framework for the cultivation, manufacture, transportation, storage, distribution, sale and taxation of adult use cannabis.

AUMA’s provisions legalizing consumption of cannabis and allowing personal cultivation took effect the day after the election. AUMA provisions legalizing adult use cannabis businesses will not be operational until the State begins issuing licenses. AUMA required the State to begin issuing licenses on January 1, 2018.

Before the State had the opportunity to fully implement the MCRSA or AUMA, in June 2017, the California Legislature passed Senate Bill 94. Senate Bill 94 repealed MCRSA,
incorporated certain provisions of the MCRSA into the licensing provisions of the AUMA, and consolidated the state regulatory and licensing framework for medical and adult use cannabis. The consolidated provisions are known as the Medicinal and Adult-Use Cannabis Regulation and Safety Act (MAUCRSA).

Under MAUCRSA, a local jurisdiction may reasonably regulate, but cannot ban, personal cultivation of up to six cannabis plants within a single private residence. A local jurisdiction may ban or regulate personal outdoor cultivation. Further, a local jurisdiction may ban or regulate all commercial cannabis activities, except for the lawful transportation of cannabis or cannabis products on public roads.

The State has indicated that it will begin issuing licenses to medical and adult use cannabis businesses on January 2, 2018. Accordingly, local jurisdictions that wish to regulate or prohibit cannabis businesses should do so before the State begins issuing licenses.

The State is currently developing emergency regulations under MAUCRSA to be in place by January 1, 2018. The Bureau of Cannabis Control has issued an Initial Study/Negative Declaration, which outlines their proposed emergency regulations. An excerpt from that document with the proposed regulations for the retail cannabis licenses is included as Attachment B.

In general, the State regulations will detail which activities are allowed for each type of licensee (i.e. retail vs. manufacturing). For example, retail and microbusiness licenses are expected to be the only types that can deliver cannabis to customers. In addition, some of the proposed regulations for retail licensees include:

- Only employees of licensed retailers who are aged 21 years and older will be able to make deliveries
- Vehicles used for delivery must have a dedicated, active GPS device
- Delivery employees will be limited in the amount of cannabis goods that they can carry at any time
- Businesses will be required to have video surveillance and alarm systems in place to ensure security on site

These regulations are in addition to those outlined in MAUCRSA itself including the requirement that no licensed facility may locate within 600 ft. of a school, day care or youth center.

Cannabis Taxation

The State excise tax of 15% on gross retail receipts of cannabis goes into effect on January 1, 2018. After reimbursing State agencies for the costs of regulation and implementation, the remaining revenues from this tax will go into the California Cannabis Tax Fund.
About $25 million from this fund is earmarked for public health and safety activities. From this $25 million, $3 million is dedicated to the California Highway Patrol (CHP) to establish and adopt protocols to determine whether a driver is operating a vehicle while impaired. Additionally, $12 million is earmarked for researching and evaluating the impacts of MAUCRSA, including the resulting health and safety issues. This is important since legalization has been occurring without the benefit of significant health data. Although U.S. Government studies (non-industry sponsored) are raising concerns about the impacts on minors, there is limited understanding of the health impacts on adults.

To further address public health and safety concerns, the State has determined that all remaining funds in the California Cannabis Tax fund be divided into three main areas:

- 60% for substance use disorder education and prevention programs specifically targeting youth
- 20% for environmental programs designed to clean up and prevent environmental damage resulting from illegal cultivation of cannabis
- 20% to the CHP for programs designed to reduce driving under the influence and to the Board of State and Community Corrections for a grant program designed to mitigate any potential negative impacts on public health and safety resulting from the implementation of the measure

City of Redwood City

Cannabis Regulation

Presently, the City’s only regulation addressing cannabis-related activity is Zoning Ordinance Article 59, which prohibits medical cannabis distribution facilities in all zoning districts. Delivery of medicinal cannabis is not explicitly prohibited by the City, therefore it is allowed. All companies who operate in Redwood City are subject to business license obligations, including cannabis businesses delivering to Redwood City. To date, those cannabis businesses have not complied with the City’s business license obligations or been subject to any local taxes.

City Council Action and Staff Activities

On June 26, 2017, the City Council held a study session on California cannabis legislation, its implication on local agencies, and local regulatory options. The link to the June 26 City Council agenda is included as Attachment C. At that meeting, the Council directed staff to start with a conservative approach to regulating cannabis that puts limits in place now and gives staff time to research and develop appropriate regulations as part of a phased approach.

The Council also provided direction to develop explicit regulations to:

- Limit indoor cultivation to six cannabis plants for personal consumption
- Ban outdoor cultivation
• Ban commercial cultivation, manufacturing, testing, retail and distribution, for both medical and adult use cannabis
• Allow and regulate medicinal and adult use cannabis deliveries

A multi-departmental staff team was created to study best practices, work with stakeholders, and develop recommendations around regulating cannabis. The team includes staff from the City Manager’s Office, City Attorney’s Office, Administrative Services Department, Community Development Department, Fire Department, and Police Department.

Team activities to date include:
• Organizing tours of medical cannabis dispensaries in the City of San Jose to understand their operations
• Meeting with San Jose’s regulatory and enforcement staff about their experience working with and regulating sixteen registered collective members
• Coordinating a stakeholder meeting with representatives from local cannabis businesses, the Redwood City Chamber of Commerce, Redwood City School District, Sequoia Hospital, as well as local real estate and property owners

The City also released an RFP and contracted with MuniServices, a municipal consulting firm, to provide staff with cannabis analysis, feedback, and data. MuniServices has experience working with over 50 other California cities in developing cannabis regulations, enforcement, and taxation schemes, as well as collaborating with industry leaders in Colorado and Washington on cannabis analytics and best practices.

In addition, staff has sought public health information regarding cannabis use by adults and minors. Among other organizations, City staff connected with the Public Health Institute of Oakland, which is working on local ordinance development and public health protections around adult use cannabis. The organization provided a summary of the state of scientific research on cannabis by Dr. Susan Weiss, Director of the Office of Extramural Research of the National Institute on Drug Abuse, which is included as Attachment D.

Planning Commission Action

The Planning Commission held a public hearing on the proposed amendments to Article 59 of the Zoning Ordinance on October 3, 2017, to fulfill the City Council’s direction to regulate cultivation, manufacturing, testing, and retail sale of cannabis. At that meeting, the Planning Commission recommended that the City Council adopt an ordinance amending Article 59. The Planning Commission also commented that they appreciated the proposed phased approach to regulation given that there is still much to be learned about the cannabis industry. The Planning Commission also recommended that the City Council consider allowing life-science related cannabis uses in one of the phases.
**Analysis**

As part of the City's approach to cannabis regulation, staff recommends that the Council take the following action:

1. Introduce amendments to Article 59 of the Zoning Ordinance, which would go into effect by January 2, 2018
2. Provide direction to staff on the proposed future phases of local cannabis regulation

The following narrative provides analysis in relation to these two main items.

**Existing Local Conditions**

As discussed, the City currently allows medicinal cannabis delivery. To date, there are no known impacts to public safety, public health or other community impacts from this allowance. However, adult use of cannabis has been observed in the City before, and after, its legalization. Public safety staff confirms that cannabis use and cannabis-related activity have not required significant public safety resources at this point.

City staff is unaware of the specific operators delivering to Redwood City nor whether they are meeting all State requirements. However, per the State code, delivery operations are required to be affiliated with a licensed dispensary. Market data suggests there are between 200 and 300 deliveries per day to patients in Redwood City from a variety of operators. City staff has now heard from several cannabis operators who are interested in locating in Redwood City and are open to responsible regulation and collaborating with the existing business community and City staff.

At the June 26 City Council meeting, the San Mateo County Health Department provided information about attitudes in Redwood City towards cannabis (Attachment E). The data is from a public opinion survey conducted throughout San Mateo County in November 2016, and shows that few residents are concerned about adult use, but most are concerned about youth use.

**Cannabis Market Summary**

MuniServices provided staff with estimates on the potential cannabis market in Redwood City. They started with a basic estimate of the demand by Redwood City residents for delivery services, assuming no storefront retail presence in the City. MuniServices used data from the Substance Abuse and Mental Health Services Administration (SAMHSA) to estimate that between 8.2%-11% of residents in San Mateo County use cannabis monthly. Applying this percent to the current population of Redwood City (excluding residents under 18), MuniServices estimates that about 2,468 to 3,393 adult Redwood City residents will use delivery services to purchase cannabis. Their estimates assume that 35% of cannabis consumers will cultivate their own personal cannabis and that 30% of cannabis consumers will buy from outside Redwood City, either at a licensed sales site, or from the black market, and will not contribute to the delivery market in Redwood City.
Staff believes these estimates may be conservative, but are an appropriate starting point for assessing the potential market. If the City allowed a licensed retail storefront or a warehouse retail without a storefront, the City’s market would most likely recapture some of the 30% of Redwood City residents lost. In addition, either retail option would open the market to non-residents, such as daytime workers and visitors to the City, depending on the structure of regulations.

The data is based on medicinal cannabis use patterns, but MuniServices believes the data is reflective of adult use cannabis use as well since many consumers, interested in cannabis use, are already consuming. This perspective is supported by research conducted by the Colorado Department of Public Health and Environment, where the Department found that adult cannabis use did not increase overall following the legalization of adult use cannabis in that State.

**Recommended Phased Approach to Regulating Cannabis**

Following research, analysis, and an assessment of best practices, staff believes that the benefits of regulating medicinal and adult use cannabis at the local level outweigh the costs. By regulating cannabis sales, the City can provide an incentive for responsible business operators to locate in Redwood City and reduce black market activity. To best achieve the benefits for the City, staff recommends a four-phase approach to implementing cannabis regulation.

First, the City needs to put initial provisions into place to have some control over cannabis activity since the State will start issuing licenses to sell adult use cannabis on January 1, 2018. Once the City’s regulations are in place, City staff has time to more fully develop the local response to cannabis. By phasing in changes, staff can analyze the final State regulations, assess tax policy, assess the evolving cannabis market, and collaborate with public health, education and other partners serving youth. Staff has strong working relationships with such community stakeholders and will continue to work in collaboration on these efforts.
The four recommended phases for regulating cannabis in the City are detailed below:

1. **Phase I – Ordinance Adoption – Effective January 2, 2018**

   The City’s only regulation addressing cannabis-related activity is Zoning Ordinance Article 59, which prohibits medical cannabis distribution facilities in all zoning districts. Staff recommends that the City adopt the proposed Zoning Code amendment, which would amend Article 59 by repealing it in its entirety and adding express provisions limiting indoor cultivation to six cannabis plants, banning personal outdoor cultivation and banning all commercial cultivation, manufacturing, testing, retail and distribution, except for deliveries. The proposed Zoning Code amendment implements the City Council’s direction on local cannabis regulations and is intended to protect the public health, safety, and welfare.

   Also, as part of Phase I, City staff brought an ordinance to the Council on October 2, 2017 to ban smoking in multifamily units. The Council introduced the ordinance after adding duplex units to the list of eligible buildings. This ban, as with all smoking ordinances, will apply to both tobacco and cannabis.

2. **Phase II – Delivery Registration – January-November 2018**

   In the next phase, the City intends to enforce its existing business license obligations on cannabis businesses providing delivery services in Redwood City, thereby moving from unregistered to registered deliveries.

   Currently, delivery of medicinal cannabis is not explicitly prohibited; therefore, it is allowed. Under the proposed Zoning Code amendment, delivery of cannabis would continue to be allowed. All companies who operate in Redwood City, including cannabis businesses delivering to Redwood City, are subject to the City’s business license obligations.

   To date, cannabis businesses delivering to Redwood City have not complied with the City’s business license obligations. During this phase, staff plans to notify cannabis retailers that may be making deliveries in Redwood City that they need to obtain an annual business license and pay the required business license tax that all other businesses operating in the City are required to pay. All cannabis businesses will need this business license if they want to compete for a permit/license to operate in Redwood City in any future phases.

   This phase will give staff the opportunity to assess the scope of delivery activity currently underway before making a recommendation on how best to regulate that activity. Throughout this phase, cannabis retailers delivering to Redwood City would be subject to State regulations and the licensee requirements from the local jurisdiction in which they are based.
During this phase, City staff also plans to develop a cannabis business regulatory fee by conducting a nexus study to determine potential staff costs involved with licensing, regulating, and enforcing cannabis activity.

At the same time, staff will review and finalize options for taxing local cannabis sales. If the City Council decides to pursue a cannabis excise tax, the proposal would need voter approval and could potentially be placed on the November 2018 election ballot.

3. Phase III – Delivery-Only Retail - January 2019

In Phase III, staff recommends that the City implement regulations to allow cannabis delivery from warehouses/facilities located in Redwood City. These warehouse facilities would act as distribution centers, with no direct customer access or pick-up. Drivers would pick-up cannabis from these facilities, and deliver it directly to customers in Redwood City and other nearby cities. These facilities would still follow the State regulations and licensing process for a retail business. Therefore, for the purposes of this report, these facilities are referred to as “delivery-only retail facilities.”

Appropriate zoning regulations would need to be developed in order to allow delivery-only retail facilities. As is the case with other land-uses, the City can decide where cannabis businesses can locate. Furthermore, the City can determine whether the uses are permitted by-right or are “conditional” uses. Conditional uses require further review and findings to be made on an application by application basis.

In addition to local land-use regulations, there are State level land-use regulations. State law requires that cannabis businesses be at least 600’ away from schools, daycares and youth centers. The City may expand this radius requirement to 1000’, or any distance the City deems appropriate. For example, the City Council may find that the delivery-only retail facilities (which operate like other distribution centers) are most appropriately located in industrial-related zoning districts. Within these Industrial Districts, cannabis-related uses would still be prohibited near schools, daycares, and youth centers.

The map in Attachment F shows the potential sites for delivery-only retail facilities. For the purposes of this map, City staff assumed that these businesses would be most appropriate in industrial related zoning districts. Using the City’s GIS system, a 600’ radius buffer from all known schools, daycares and youth centers was applied. If the City were to move in this direction, a more detailed site analysis would be conducted, to make certain all schools, daycares and youth centers were captured.
City staff also mapped potential sites for delivery-only retail facilities, if the City decided to implement a wider prohibition, such as a 1,000’ radius from youth serving facilities. That map, Attachment G, removes about 30 parcels from the potential site list.

In addition, the eventual location of a licensed cannabis business would depend on overall availability, logistics such as finding the right size and type of facility, a willing landlord, and a competitively priced space. Market data illustrates that delivery-only facilities would require anywhere from 1,000-3,000 square footage.

4. Phase IV – Storefront Retail – Could integrate with Phase III in January or July 2019

In the final proposed phase, the City could expand regulations to allow “storefront” retail cannabis businesses. As is the case with delivery-only retail business, the City has broad discretion regarding where storefront retail cannabis businesses can locate. The State level radius restrictions noted above would still apply, and the City may expand that radius.

As a starting point, City staff used traditional commercial areas, plus the state level 600’ radius restriction, for the allowed locations in the potential locations map (Attachment F). Attachment G shows the available storefront retail sites, if the City decided to implement the 1,000’ radius requirement. This expanded radius would remove about 200 parcels from the potential site list.

All changes to the zoning code require both Planning Commission and City Council review. A more detailed analysis would be done at that time, which examines potential impacts of certain land-use decisions.

Although this report is currently showing Phases III and IV as distinct phases, Phases III and IV could potentially happen concurrently. In addition, given this is a new industry, staff may recommend other land uses be included in this phased approach, if more information is known at that time.

Revenue Potential in Regulating Cannabis

The City has a few options for instituting regulatory fees and taxes on cannabis sales to cover costs associated with regulation and to generate revenue. Most fees and taxes will take time to develop and approve and are recommended for implementation in the later phases.

1. Business License Tax
   As part of Phase II, the City proposes to require all cannabis businesses delivering to Redwood City to obtain a City business license. The base business tax for cannabis businesses would be the same as for other registered businesses in the City – the current annual base tax is $63 plus $42 per
owner/partner/full-time employee ($21 per part-time employee). This tax can be applied without additional City Council action.

2. **Cannabis Business Regulatory Fee**
   A cannabis business regulatory fee is contemplated as part of Phases III and IV. This fee covers the actual costs of staff time for regulating cannabis businesses. Adoption of a regulatory fee requires City Council approval and the completion of a nexus study to determine the costs involved with regulating cannabis in Redwood City. If the City Council approves moving forward to at least Phase III, the fee would be developed to recover the reasonable regulatory costs associated with issuing licenses and permits, performing investigations, inspections, and audits, and enforcing the regulations.

3. **Cannabis Tax (Excise Tax)**
   A cannabis tax is contemplated as part of Phase III and IV. The City can adopt a cannabis tax which is a type of excise tax on all cannabis business. An excise tax requires voter approval and a general excise tax would need 50% +1 of the vote for adoption. Staff is recommending a cannabis tax that is a percent of a business’s gross receipts on medicinal and adult use cannabis. Many cities have adopted a sliding scale percentage, which allows the City to phase in the taxes, have some flexibility in light of an evolving market and set a tax rate that encourages business compliance.

   City staff is recommending a sliding scale tax in the range of 4%-7%. If the Council approves moving forward with a cannabis tax, City staff would work with MuniServices to identify the appropriate tax range for Redwood City, with a goal to place a measure on the November 2018 ballot.

4. **Sales Tax**
   The standard sales tax rate will apply to all customer purchases of adult use cannabis. Medicinal cannabis is exempted from sales tax. Any purchases made in Redwood City, either at a warehouse facility licensed for delivery or a storefront retail location, would be subject to the standard 8.75% sales tax rate. As with all sales tax transactions, the City receives 1% and the County and State would get the remaining 7.75% of the tax. In general, the City would not collect sales tax on deliveries to Redwood City from locations outside the City, as the sales tax typically goes to the jurisdiction where the licensed cannabis business is physically located.

Each of the phases brings with it a different level of revenue potential based on the taxes and fees in place. A conservative estimate of revenues for each phase is outlined below. These estimates do not include cannabis business regulatory fees that may be assessed for cost-recovery purposes.

1. **Phase I – Ordinance Adoption (No new revenue)**
   No additional revenue is expected from this phase.
2. **Phase II – Delivery Registration (Est. $5,000/year)**
   The main revenue from this phase would come from the business license taxes paid by businesses delivering to Redwood City. City staff does not know at this time exactly how many businesses are delivering to the City, but staff made an estimate based on 48 cannabis delivery businesses that are located within 50 miles of the City. If at least 50% of those businesses delivered here and obtained their business license, the City could receive approximately $5,000 per year. Since the businesses delivering would all be located outside of the City in this phase, there would not be any anticipated tax revenues based on gross receipts.

3. **Phase III – Delivery Only Retail (Est. $120,000/year)**
   In this phase, the City would begin to see revenue from the sales tax charged on purchases of adult use cannabis. In addition, if the voters approved a cannabis tax, the City would begin to see revenues from this tax. If the City implemented a possible cannabis tax of 5%, the City could receive approximately $100,000 in annual revenues based on the estimated gross receipts. This is in addition to an estimated $20,000 in sales tax revenue. This phase offers the potential of $120,000 in new revenue.

4. **Phase IV - Storefront Retail (Est. $162,000/year)**
   In this final phase, the City would see both sales tax and cannabis tax revenues increase since a storefront retail operation is expected to have higher gross receipts than a delivery-only facility. The following estimated revenues are based solely on new revenues associated with storefront retail and do not include the revenues the City could realize in Phases II and III. As before, given a possible cannabis tax of 5%, the City could receive $135,000 in additional revenues based on the estimated gross receipts. The potential new sales tax revenue for this phase would be $27,000. Overall, this phase offers the potential of $162,000 in new revenue.

The below chart illustrates the cumulative revenue potential of each phase:

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<th>Cannabis Annual Revenue Potential</th>
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Business Engagement/Enforcement

Following the implementation of the four proposed phases, the City will need to dedicate staff time to the ongoing monitoring of cannabis regulations. The Police Department would serve as the lead in enforcing restrictions from cannabis regulations. The Administrative Services Department will need to monitor delivery businesses and will be involved in auditing fees and tax revenues, if approved. The City Manager’s Office and Economic Development staff will also be involved in building relationships with any new businesses located in Redwood City. The proposed cannabis regulatory fees are expected to help cover these additional costs.

Cannabis Regulation in California Cities

Many of the larger cities in California have been actively regulating cannabis since the legalization of medicinal cannabis. Cities such as San Francisco, Sacramento and San Jose have developed active programs that have allowed licensed medicinal cannabis facilities under various ordinance conditions. Most mid-size and smaller cities have not been active in creating regulations for cannabis businesses, especially in the Bay Area. With the legalization of adult use cannabis, though, more cities in the Bay Area are beginning to look at regulating cannabis and allowing some use in their cities. Attachment H provides a summary of the status of cannabis regulations in cities within San Mateo County.

Feedback from Cannabis Operators

As mentioned, on September 8, staff held a stakeholder meeting with a cross section of cannabis business operators, the Redwood City Chamber of Commerce, Redwood City School District, Sequoia Hospital, as well as local real estate and property owners. City staff heard various perspectives on the proposed phasing and regulation of cannabis in Redwood City.

As part of the discussion, the cannabis businesses expressed interest in operating in Redwood City under reasonable regulations. They stated that proper regulations helped address public health concerns and that they wanted to create a safe operating environment for their customers and employees. Their preference was to keep local regulations aligned with State regulations to create consistency in implementation. The businesses also expressed that the enforcement of regulations was important because it helped prevent illegal operators from undercutting the prices of those who were bearing the expense to comply with regulations.

The stakeholders present also shared a few challenges and concerns related to operating in Redwood City, including the challenge of finding a good location given the high local real estate costs. They also mentioned that banking continued to be a challenge due to federal restrictions. However, they shared that operators are taking less cash and for some larger operators, approximately 60-70% of transactions are not
Cash. The operators felt that most operators could pay City fees and taxes by check to avoid incurring cash handling expenses for the City.

Finally, the operators were concerned about over-taxing the cannabis business and making legal cannabis uncompetitive with illegal cannabis. As outlined in the table below, the cumulative taxes on cannabis through all phases of production, including local sales tax, is about 24%.

Based on the experience in Colorado, this leaves room for limited local taxation, as data from Colorado suggests that cumulative taxes beyond 25-30% made legal cannabis uncompetitive with illegal cannabis, and would drive consumers to the black market.

Feedback from Community Outreach Conducted

City staff conducted a variety of community outreach activities following the June 26 City Council meeting on cannabis.

City staff presented this item at a Redwood City Chamber of Commerce meeting. During the Chamber meeting, members discussed the need to have responsible property owners at locations where a cannabis business might locate, in addition to providing regulations and responsibilities for the business owners. They also had questions about where a business might locate in the City, the types of licenses available and the types of taxes cannabis businesses might generate. Since regulating adult use cannabis is so new, the audience at the Chamber meeting, like audiences at...
some of the other outreach activities, had more questions than feedback at this stage in the process.

As part of this outreach, City staff also had preliminary discussions with the health providers and school districts on the proposed regulations. Both groups are interested in being involved with discussions going forward.

In addition to face-to-face meetings with stakeholders and the community, the City completed a combination of print and digital communications and outreach to gain input on the proposed cannabis regulations (Attachment I). An online survey in both English and Spanish was released. The survey gathered a total of 1,285 responses, the largest response to date for this type of City survey. Over 5% of the surveys were taken in Spanish.

The survey results included the following:

- 72% in favor of cash-free delivery of recreational cannabis
- 71% in favor of a wholesale cannabis storage/distribution center in an industrial or commercial location
- 61% in favor of a ban on smoking tobacco and cannabis in multifamily buildings
- 95% in favor of charging a business license fee
- 79% in favor of imposing a sales tax on recreational cannabis delivery sales
- 63% in favor of a similar City sales tax amount as what is already applied to alcohol (8.75%)

Staff developed and posted this survey prior to their stakeholder meeting with cannabis operators and has since determined that cash-free delivery and sales may not be practical in the current cannabis market.

Staff Recommendations

Staff recommends that the City Council implement the four phases as outlined in the report. This would include the following steps:

- Adopt proposed amendments to Article 59 of the Zoning Code
- Direct staff to:
  - Enforce City's business license obligations on cannabis businesses delivering to Redwood City
  - Explore a business regulatory fee for cannabis businesses and prepare a cannabis tax for the November 2018 ballot
  - Prepare regulations that allow and regulate delivery-only retail licenses for cannabis businesses in the City
  - Develop amendments to the regulations to allow issuance of storefront retail licenses for cannabis business.

Throughout all the phases, City staff would engage with the health, education and business communities involved to assess impacts of proposed regulations and taxes.
ALTERNATIVES
(1) The Council could choose to implement only Phase I and II and adopt only the proposed amendments to Article 59 of the Zoning Code, which limits personal cultivation and bans all commercial cannabis activity in the City except for deliveries.
(2) The Council could implement Phase I and II as proposed, but combine Phases III and IV so that one set of regulations is developed at the same time that allows both storefront and delivery only retail businesses to locate in the City.

FISCAL IMPACT
Depending upon the phases adopted, the City could realize additional revenues to the General Fund. As mentioned above, the City would not recognize any additional revenue if the only adopted regulations are the bans on medicinal and adult use cannabis businesses.

Using conservative estimates, an implemented second phase could bring in about $5,000 in additional business license tax revenue. With the adoption of the third phase, the City could receive total new revenues of approximately $125,000, assuming a 5% cannabis tax and using a very conservative estimate of actual sales from cannabis businesses in Redwood City. If all four phases were adopted, the City could potentially see approximately $287,000 in total new annual revenues.

City staff anticipates that significant additional staff time will be involved with monitoring and enforcing any new cannabis regulations. It is difficult to determine what the cost of staffing each implementation phase will be, but staff will seek to recover those additional staff costs with a cannabis business regulatory fee. Revenue from this fee is not included in the estimates above.

ENVIRONMENTAL REVIEW
This activity is not a project under CEQA as defined in CEQA Guidelines, Section 15378, because it has no potential for resulting in either a direct or a foreseeable physical change in the environment.

KIMBRA MCCARTHY
ASSISTANT CITY MANAGER – ADMINISTRATIVE SERVICES

MELISSA STEVENSON DIAZ
CITY MANAGER
ATTACHMENTS
A. Ordinance Amending Article 59 of the Redwood City Zoning Ordinance
B. Excerpt of Proposed State Regulations
C. City Council Study Session (link to June 26, 2017 City Council agenda)
D. Cannabis: State of the Science PowerPoint
E. San Mateo County Public Opinion Survey PowerPoint
F. Map of potential locations based on limits in State law
G. Map of potential locations based on 1,000 ft. limit
H. San Mateo County Commercial Cannabis Summary
I. Summary of Cannabis Outreach Results