



Administrative Report

N.2., File # 24-0808

Meeting Date: 5/14/2024

To: MAYOR AND CITY COUNCIL
From: ELIZABETH HAUSE, ASSISTANT TO THE CITY MANAGER

TITLE

DISCUSSION AND POSSIBLE ACTION ON THE PROPOSED UPDATES TO THE CANNABIS REGULATORY ORDINANCES AND APPLICATION GUIDELINES

EXECUTIVE SUMMARY

On September 6, 2022, the City Council adopted cannabis regulatory Ordinances for both inland and coastal areas of Redondo Beach, allowing no more than two storefront commercial cannabis retailers to operate in the City. The inland Ordinance became effective 30 days after adoption, and the coastal ordinance became effective when it was certified by the California Coastal Commission on March 9, 2023.

At the December 19, 2023 meeting, the City Council directed staff to enter into a contract with Tierra West Advisors, Inc. (TWA) to review the City's final cannabis regulatory ordinances, draft Commercial Cannabis Business (CCB) permitting application guidelines, and to provide assistance with application processing. TWA's recommended redlines to the City's regulatory ordinances are attached to this report.

The redlined ordinances and application guidelines reflect TWA's recommendations and will be adjusted, as needed, following City Council direction on the following policy considerations:

- 1) Final direction on the cannabis business types included (allowed) in the Ordinance
- 2) Direction on the process to consider allowing permittees to relocate business operations following permit issuance
- 3) Direction on how the final selection of the permittees occurs and, by extension, how appeals are managed
- 4) Direction on the length of the CCB permit term
- 5) Direction on whether a Community Benefit Plan should be included/scored in the application process
- 6) Direction on setting the retail cannabis sales tax rate
- 7) Direction on whether to include site selection and the attainment of property as part of the CCB application criteria
- 8) Direction on any other sections of the regulatory ordinances or CCB application process criteria the Council wishes to add, affirm, or remove.

A more detailed description of the policy considerations is provided below, including a list of Council options and the approach recommended by TWA.

BACKGROUND

The analysis and identification of cannabis regulations most appropriate for Redondo Beach began in 2018 with the appointment of a Cannabis Steering Committee, whose recommendations are attached for Council's review. Following review by the Planning Commission, and several City Council discussion items, the current Cannabis Regulatory Ordinances were adopted on September 6, 2022. The current Ordinances allow no more than two storefront commercial cannabis retailers to operate in the City.

At the December 19, 2023 Council meeting, portions of the regulatory ordinances and the permit application process were identified as needing further review. At that time, the City Council provided direction to engage help from TWA and develop a scope of work that includes:

Phase 1: Cannabis Ordinance and Application Process Review Services

Objective 1: Review the City's Draft Cannabis Regulatory Ordinance

Objective 2: Application Process Review

Objective 3: Cost Recovery Fee Analysis

Objective 4: Attendance, Support or Presentations at Meetings or Workshops

Objective 5: Technical Assistance and Subject Matter Expertise

Objective 6: Drafts and Final Work Products

At the February 6, 2024 meeting, the City Council approved an agreement with TWA and work began immediately on Objectives 1 through 3. Attached to this report are TWA's recommended redlines to the City's Cannabis Regulatory Ordinances. TWA's changes include the incorporation of the application guideline parameters into the Ordinance to ensure consistency across all cannabis program documentation. All redlines to the Ordinance and CCB guidelines being presented are preliminary and can be further developed based on Council direction. Staff is requesting that Council evaluate and provide direction on the following sections:

1. Type of cannabis businesses listed/included in the Ordinance

- a. Current Language/Requirements: "Commercial cannabis activity" includes the cultivation, possession, manufacture, distribution, processing, storing, laboratory testing, transportation, distribution, delivery or sale of cannabis and cannabis products.
- b. Options available to Council:
 - i. keep current language, or
 - ii. craft the Ordinance to only allow retail storefront and retail delivery, specifically excluding all other types of cannabis business
- c. TWA Recommendation: ii. craft the Ordinance to only allow retail storefront and retail delivery, specifically excluding all other types of cannabis business

2. Changing Locations after Permit Issuance; this can occur due to a need to expand the business or to enhance some other feature of the physical space (better parking, greater security, etc.)

- a. Current Language/Requirements: A Permittee shall not relocate, move, or otherwise alter the location of its operations from the specific area so identified without obtaining prior approval from the City; regardless of any possessory interest or right to possession to such additional areas. No Permittee shall add additional or contiguous

units or areas, thereby altering the initially approved premises, without prior approval of the City Council.

b. Options available to Council:

- i. Keep current language, or
 - ii. Expand and better define how approval for relocation is attained, and have approval of the new location be at the discretion of the Permit Administrator, given compliance with location and zoning requirements, or
 - iii. Expand and better define how approval for relocation is attained, and have approval of the new location be at the discretion of the City Council, given compliance with location and zoning requirements
- c. TWA Recommendation: ii. Expand and better define how approval for relocation is attained, and have approval of the new location be at the discretion of the Permit Administrator, given compliance with location and zoning requirements.

3. Final Selection of Permittees

- a. Current Process: In the fourth phase of the selection process, the City Manager or designee present to the City Council the top Applicants (no set number of applicants that will be presented). Council then interviews the top applicants and makes the final determination on who receives the permit(s).
- b. Options Available to Council:
- i. Keep current language and process, or
 - ii. Shift final permittee selection to the Permit Administrator (City Manager or designee), or
 - iii. Update current process to a limit the top Applicants to only five (5), with Council interviewing and selecting the Permittee(s).
- c. TWA Recommendation: iii. Update current process to a limit the top Applicants to only five (5), with Council interviewing and selecting the Permittee(s).

4. Permit Term Length

- a. Current Language/Requirements: Not defined.
- b. Options Available to Council:
- i. 5-year term with option to renew, or
 - ii. Any other term length
- c. TWA Recommendation: i. 5-year term with option to renew for an additional two, 2-year terms (done by the Permit Administrator); permits that are extended twice administratively may request an extension of up to five (5) years by application to the City Council

5. Community Benefit Plan

- a. Current Language/Requirements: Guidelines require a Community Benefits and Investments Plan, scored at 300 Points out of 1600 points in Phase III of the Evaluation. It requires the applicants to describe the benefits the cannabis permit applicant intends to provide the local community, any non-profit partnerships they plan on having, description of intended minimum wage, and plan for local sourcing. No minimum amount is required in this section.
- b. Options Available to Council:
- i. Keep current language, or

- ii. Include it in the scoring rubric with the purpose of capturing intent of the applicant to contribute to the community, while also including a percentage or minimum contribution amount atop the sales tax, or
 - iii. Eliminate this item from the scoring rubric altogether and fold the percentage into the tax rate (i.e. instead of 7% sales tax rate plus 1% or \$XX it would just be an 8% sales tax rate)
- c. TWA Recommendation: iii. Eliminate this item from the scoring rubric altogether and fold the percentage into the tax rate

6. Sales Tax Rate

- a. Current Rate: None yet selected. Council has the ability to choose from a range of 3%-9%
- b. Options Available to Council:
 - i. Any tax rate between 3-9%, or
 - ii. A sales tax rate that incorporates the community benefit aspect of the cannabis business program
- c. TWA Recommendation: ii. A sales tax rate that incorporates the community benefit aspect of the cannabis business program; TWA recommends a sales tax rate of 8% (7% accounts for the sales tax, 1% would be dedicated to a City-directed Community Benefit Fund)

7. Including Site Selection as part of Permitting Process:

- a. Current Language/Requirements: “17) Whether or not Applicants have obtained a property for the purposes of their commercial cannabis business prior to their selection, shall have no bearing on their selection.”
- b. Options available to Council:
 - i. Maintain current language, with property attainment NOT required, or
 - ii. Require a property be attained as part of the permit application process
- c. TWA Recommendation: ii. Require a property be attained as part of the permit application process

Staff is seeking Council direction on the sections above in order to finalize the City's Cannabis Regulatory Ordinances and CCB application criteria. This item also provides the Council an opportunity to discuss or suggest amendments to any additional areas of the City's Cannabis Regulatory Ordinances and CCB application criteria.

COORDINATION

The development of the original CCB Application Guidelines was completed in coordination with the Community Development Department and Hinderliter, de Llamas & Associates (HdL). The preparation of the Ordinances and Resolutions were done in coordination with the Community Development Department, the City Attorney's Office, and HdL. The development of the redlined ordinance attached to this report was completed in coordination with TWA.

FISCAL IMPACT

The fiscal impact to the City for CCB application processing and management is unknown at this point, though a fee study in this area will be completed in the near future. The application fees are expected to provide full City cost recovery for the processing of all license applications, including any

related consulting services costs. Preliminary estimates indicate an application fee between \$12,000 and \$16,000 per applicant, and an annual regulatory fee within the same range for each CCB permittee. These estimates are expected to change depending on final staff resource allocation. TWA and staff will have proposed fee amounts for Council's consideration in the next several weeks.

It is estimated that each cannabis business can generate between \$250,000 and \$500,000 in additional annual General Fund tax revenue, assuming the City sets a 5% tax rate. It is difficult to determine, at this time, what impact taxing cannabis delivery would have on General Fund revenue.

The preparation of the Ordinances, CCB guidelines, and staff report are within the workplan and annual budgets of the City Manager's Office and the City Attorney's Office.

APPROVED BY:

Mike Witzansky, City Manager

ATTACHMENTS

- Redlined Cannabis Regulatory Ordinance
- Administrative Report - City Council, Cannabis Steering Committee Recommendations, October 5, 2021
- Memo Regarding Sales Tax Rates in Other California Cities, May 9, 2024