

Commercial/Industrial Cannabis Options In the City of Vacaville



May 10, 2019



AGENDA

- Background
- Introductions
- Path to Success
- Legislative History (dual licensing)
- License Types
- Zoning Considerations
- Policy Considerations
- Economics, Fees and Taxes
- Size of CA Cannabis Industry
- Q& A



BACKGROUND

- October 9, 2015 through June 27, 2017 – State legislation and state voters adopted a series of laws effectively legalizing all cannabis in California.
- The new consolidated provisions are now known as the Medicinal and Adult Use Cannabis Regulation and Safety Act (MAUCRSA).
- State licensing regulations became effective January 1, 2018.
- On January 26, 2016 – Vacaville City Council adopted the Medical Cannabis Regulations ordinance that permanently prohibited all medical cannabis businesses and operations.
- The ordinance included a sunset clause relating to the personal cultivation of medical marijuana by qualified patients and primary caregivers which expired February 26, 2018.



BACKGROUND

- September 26, 2017 – Vacaville City Council extended the interim ordinance to prohibit both medical and recreational marijuana.
- This ordinance expires September 26, 2019.
- City Council directed Staff to analyze the effects of industrial, retail, and commercial cannabis land uses, and outdoor cannabis cultivation.
- December 11, 2018 – Vacaville City Council established regulations on personal cannabis cultivation (follows State standards).
- “Open House” for recreational cannabis activities held on April 17, 2019.



CITY TEAM

The following City Departments are actively involved:

- City Attorney
- City Manager
- Community Development (Planning)
- Fire (Code Enforcement)
- Police
- Utilities

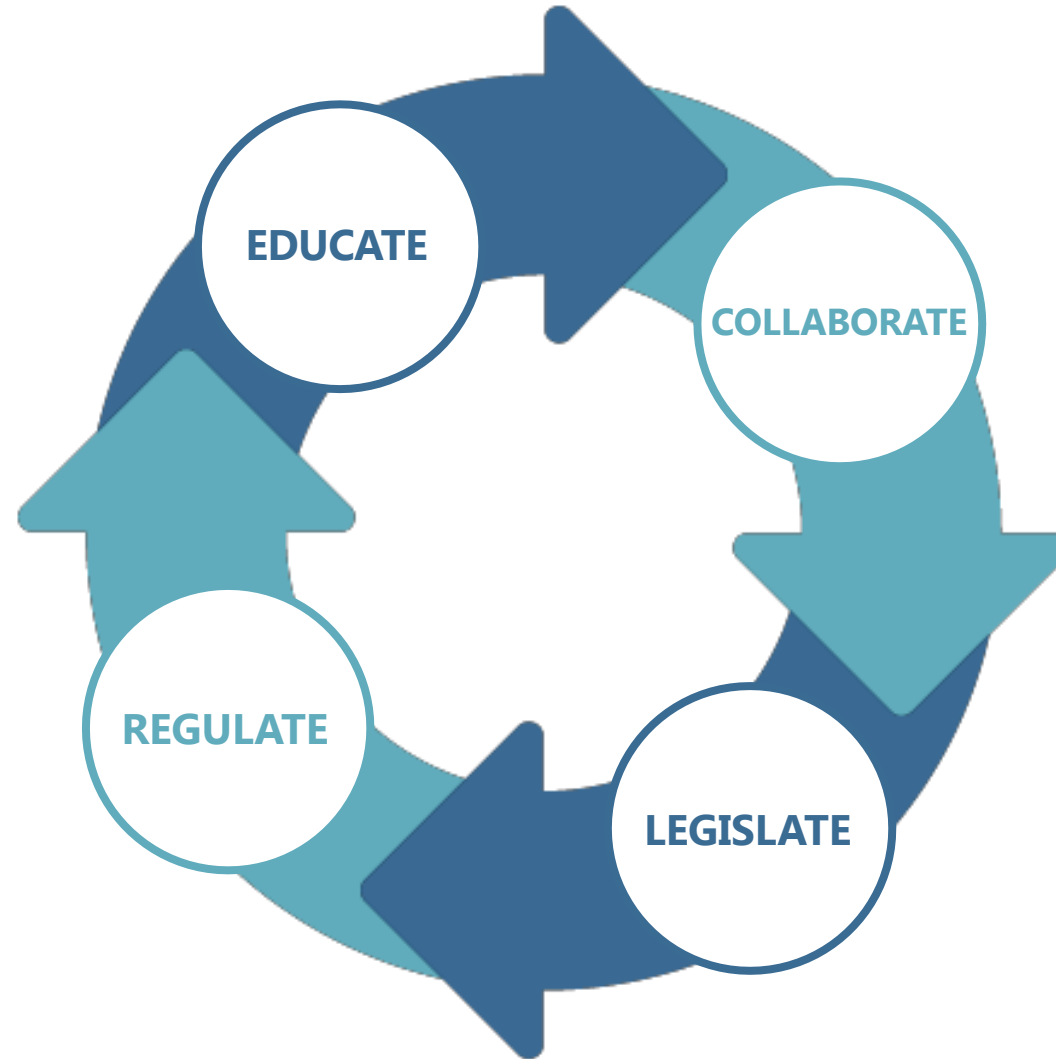
Additionally, the City is partnering with HdL Companies who are industry experts.

ABOUT HdL

- ✓ Serves:
 - 303 cities
 - 48 counties
 - 108 transaction districts
- ✓ Partnered with over 125 local agencies to develop cannabis policies
- ✓ Team consists of former policymakers, law enforcement and cannabis regulators with State, County and local level experience
- ✓ Reviewed and evaluated over 1,800 cannabis business applications for local agencies
- ✓ HdL staff has experience conducting over 16,000 cannabis compliance reviews in Colorado, California and Nevada



PATH TO SUCCESS



Legislative History

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PROPOSITION 64 ELECTION RESULTS

Statewide

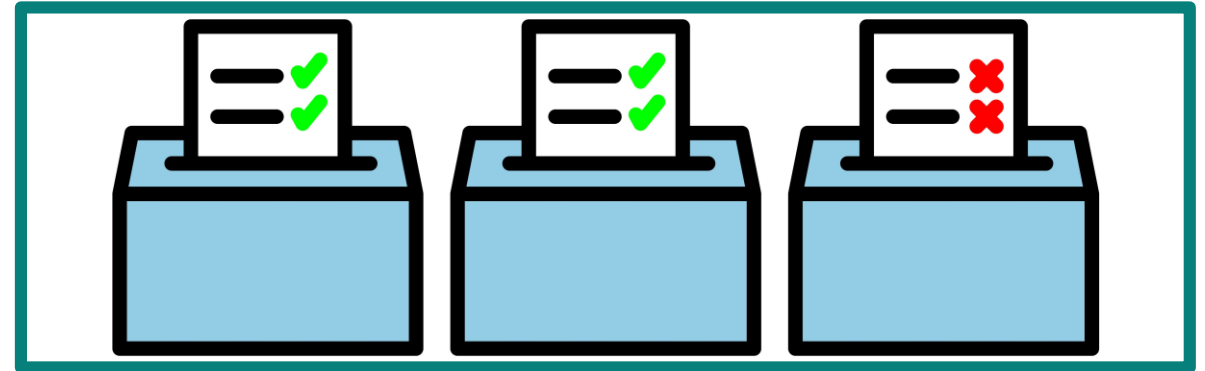
passed with 56.1% of the vote;
43.9% opposed

Solano County

58.39% of voters supported;
41.61% opposed

City of Vacaville

54.51% of voters supported;
45.49% opposed





CALIFORNIA CANNABIS LAWS

2015-16

- Medical Cannabis
- Regulation and Safety
- Act (MCRSA)
- Prop 64 (AUMA)

2016-17

- Trailer Bill SB 94
- Medical & Adult Use of Cannabis
- AB 133 Clean Up Bill to fix Regulation Issues

2018-19

- State Regulations were finalized and went into effect January 9, 2019
- SB 1459-Provisional Licenses

PROTECTS LOCAL CONTROL BY:

- **Dual licensing:** A requirement in statute that all marijuana businesses must have both a state license and a local license or permit to operate legally in California. Jurisdictions that regulate or ban medical marijuana will be able to retain their regulations or ban.
- **Enforcement:** Local governments may enforce state law and local ordinances if they request that authority and if it is granted by the relevant state agency.

MEDICINAL & ADULT-USE CANNABIS REGULATION AND SAFETY ACT (MAUCRSA)

License Types



State Cannabis Licensing Authorities



Bureau of Cannabis Control

Housed within the California Department of Consumer Affairs, the Bureau will license **retailers, distributors, third-party testing laboratories** and **microbusinesses**.



Manufactured Cannabis Safety Branch

Housed within the California Department of Public Health, MCSB will license **manufacturers** of cannabis products. This includes nearly all non-flower products (edibles, oils, tinctures, etc.).



CalCannabis Cultivation Licensing

Housed within the California Department of Food & Agriculture, CalCannabis will license **cultivators** and implement the state's **Track-and-Trace** system to record movement of cannabis from seed to sale.



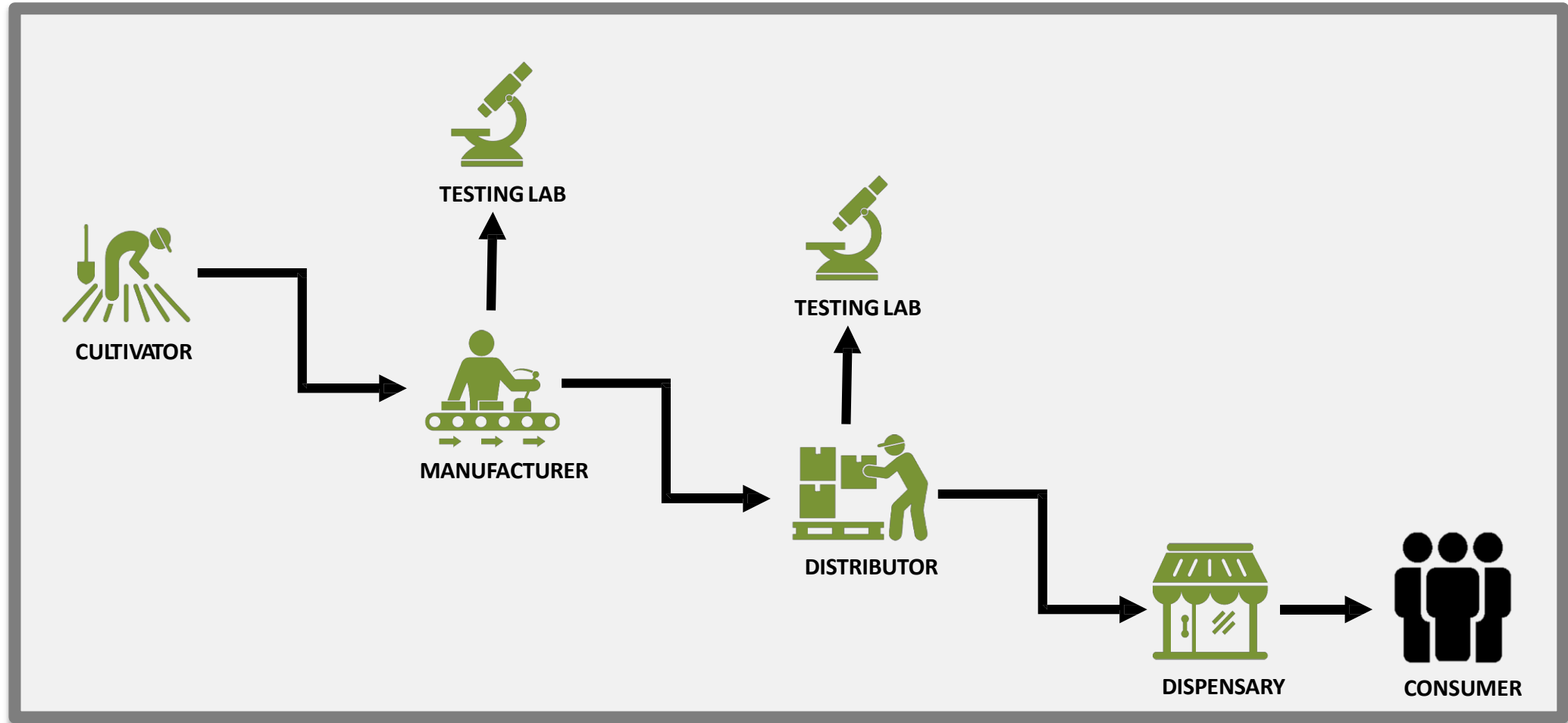
CANNABIS POLICY

City Council Can Set Cannabis Regulatory Policies On:

- Cultivation
- Microbusiness
- Manufacturing
- Testing Labs
- Delivery/Non Store Front Retailer
- Retail-Medicinal/Adult-Use
- Distribution Facilities



CANNABIS BUSINESS CATEGORIES





CULTIVATION



LICENSE CATEGORIES

Indoor, Outdoor and Mixed-Light

LICENSE TYPES

Cultivators, Nurseries, Processors

PRIVILEGES

Planting, growing, harvesting, drying, curing, grading and trimming



CULTIVATION



ADULT USE (RECREATIONAL) OR MEDICINAL

- 1) **CULTIVATORS**: Numerous license types for commercial cultivators, ranging from specialty cottage to medium-sized grows
- 2) **NURSERIES**: Cultivation of cannabis solely as a nursery, including cloning and seed propagation
- 3) **PROCESSORS**: A site that conducts only trimming, drying, curing, grading, or packaging of cannabis and nonmanufactured cannabis products

CATEGORY	OUTDOOR	INDOOR	MIXED-LIGHT
Specialty Cottage	Up to 25 mature plants	Up to 500 sq ft	Up to 2,500 sq ft
Specialty	Up to 5,000 sq ft or up to 50 mature plants	Up to 5,000 sq ft	Up to 5,000 sq ft
Small	5,001 – 10,000 sq ft	5,001 – 10,000 sq ft	5,001 – 10,000 sq ft
Medium	10,001 sq ft – 1 acre	10,001 – 22,000 sq ft	10,001 – 22,000 sq ft
Large	Greater than 1 acre	Greater than 22,000 sq ft	Greater than 22,000 sq ft
Nursery	No size limit defined in statute		



CULTIVATION

ILLEGAL

LEGAL





IMPACTS OF HEMP IN THE COMMUNITY

- ✓ Farm Bill Act of 2018 removed hemp from Controlled Substance Schedule
- ✓ Local communities have not developed ordinances to ban it yet
- ✓ Creates alternatives to cannabis but may also change strategies of the cannabis industry
- ✓ Hemp Oils will be in mainstream stores such as Walgreen, CVS and GNC in California in the future
- ✓ Will create odor nuisances just like cultivation





DISTRIBUTION



DISTRIBUTOR TRANSPORT ONLY

- A licensed distributor transport only licensee may transport cannabis goods between licensees
- Shall not transport any cannabis goods except for immature cannabis plants and seeds to a licensed retailer or licensed microbusiness authorized to engage in retail sales

KEY REQUIREMENTS

- Transport vehicles must have an active alarm system
- Must generate a shipping manifest



DISTRIBUTION



MANUFACTURING



LICENSE TYPES

- **Type 6 Non-Volatile Solvents**
 - *Carbon dioxide, ethanol, water*
- **Type 7 Volatile Solvents**
 - *Butane, hexane, pentane propane*
- **Type N Infusions**
 - *No extraction, infusion only*
- **Type P Packaging and labeling**

Certified Closed-Loop Extraction Systems



MANUFACTURING

ILLEGAL



LEGAL





MANUFACTURING



HdL
COMPANIES



RETAIL



REQUIREMENTS

- A-licenses and M-Licenses may have the same premises
- All cannabis goods must be placed in an opaque exit package prior to leaving the premises
- Deliveries may be made only by employees of the retailer
- Deliveries must be to a physical address
- The retailer must be able to immediately locate all delivery vehicles



RETAIL

NON-COMPLIANT



COMPLIANT

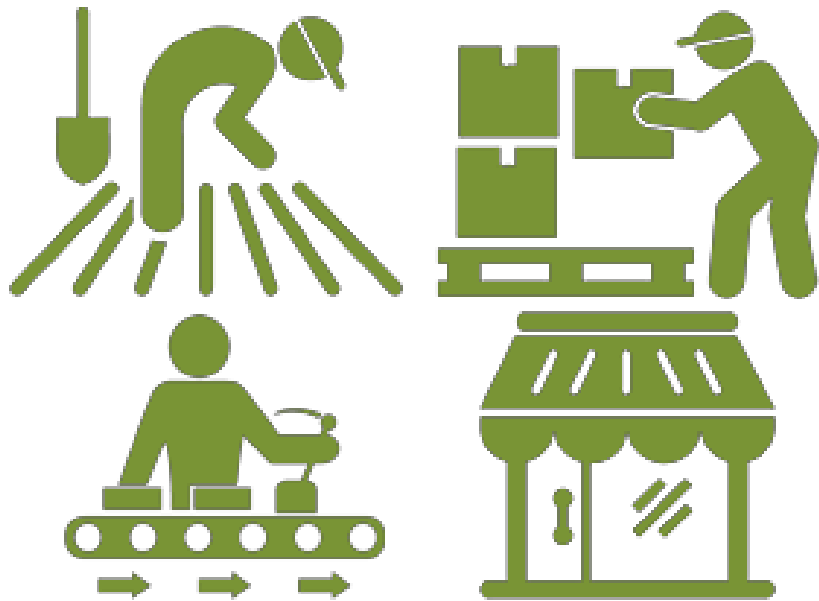




RETAILER/DISPENSARY/MICROBUSINESS



MICROBUSINESS



REQUIREMENTS

- A microbusiness licensee must conduct at least 3 of the 4 following commercial activities
- Must indicate on the application for licensure which commercial cannabis activities the applicant intends to engage in
- Must comply with all requirements for each activity



TESTING LABORATORIES



REQUIREMENTS

- Owners of a Testing Laboratory are prohibited from conducting other commercial cannabis activities
- A licensed Laboratory shall maintain ISO accreditation
- Testing requirements will be phased in
- Laboratories will be required to produce a certificate of analysis containing pass/fail results



TESTING LABORATORIES



CANNABIS EVENTS



LIMITATIONS

- The organizer of the event must first obtain a cannabis event organizer license
- Sales of cannabis goods must be performed by a retailer or microbusiness approved to engage in retail
- Access to the area is restricted to persons 21 years of age or older
- Onsite consumption must be done in accordance with the local jurisdiction's requirements
- Security must be present at the event

A stylized globe in shades of teal and green, showing continents and oceans, positioned in the background of the slide.

Zoning Considerations and Impacts to Other Businesses



DEVELOPMENT OF REGULATORY ORDINANCE

Local jurisdictions should develop ordinances which address:

Time

Place

Manner

SENSITIVE USE BUFFERS

State Sensitive Uses:

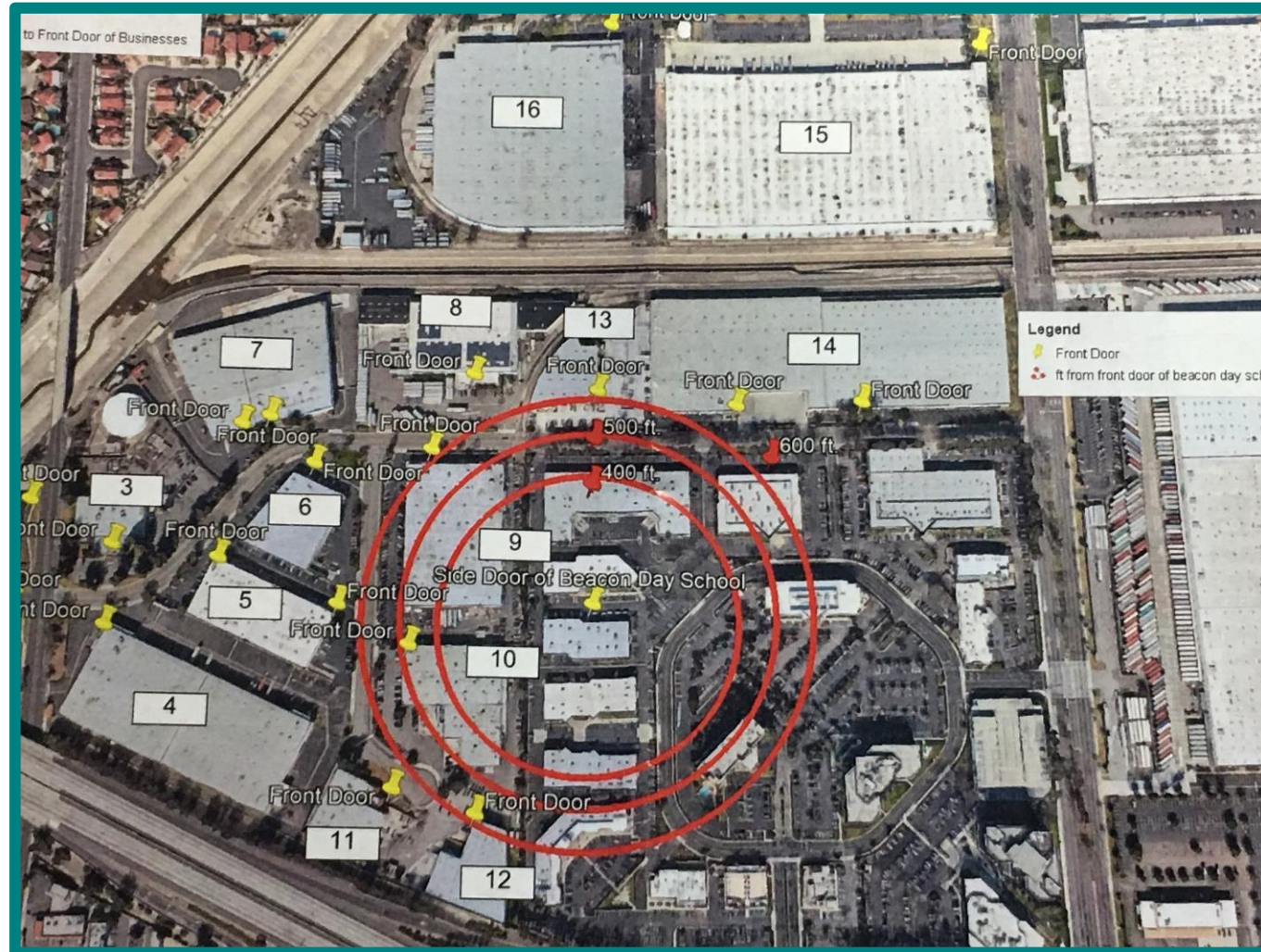
- Schools k-12,
- Day Cares &
- Youth Centers

Local Considerations:

- Churches
- Parks
- Community Centers
- Edge of the City
- Pier or other landmarks



LAND USE BUFFER OPTIONS

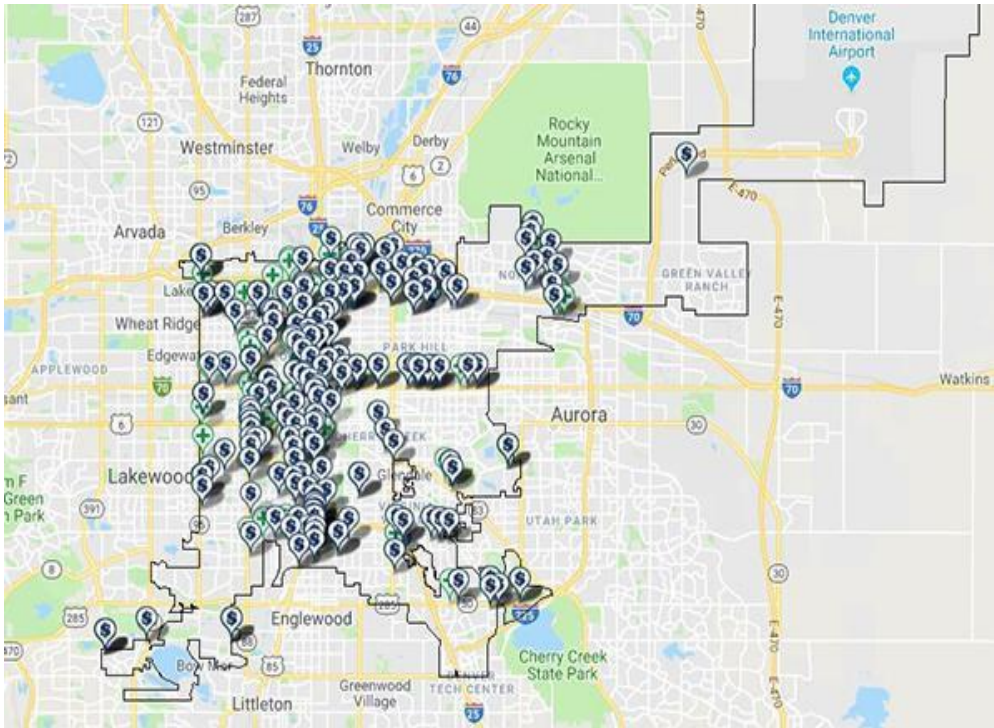




YOUTH ACCESS

STRATEGIES TO ADDRESS INCREASED YOUTH ACCESS

Density: Studies show that concentration of alcohol retailers can increase abuse of alcohol by youth. Cities can control the density of cannabis retailers by requiring them to be located a minimum specified distance from one another.



Policy Considerations

A stylized globe in shades of teal and light green, positioned on the right side of the slide. The globe is composed of several large, rounded, overlapping shapes that represent continents and oceans, creating a modern and abstract representation of the Earth.

CANNABIS POLICY DEVELOPMENT

*“Policies designed today will help shape
how your industry looks tomorrow.”*

- HdL Companies

Economics, Fees & Taxes





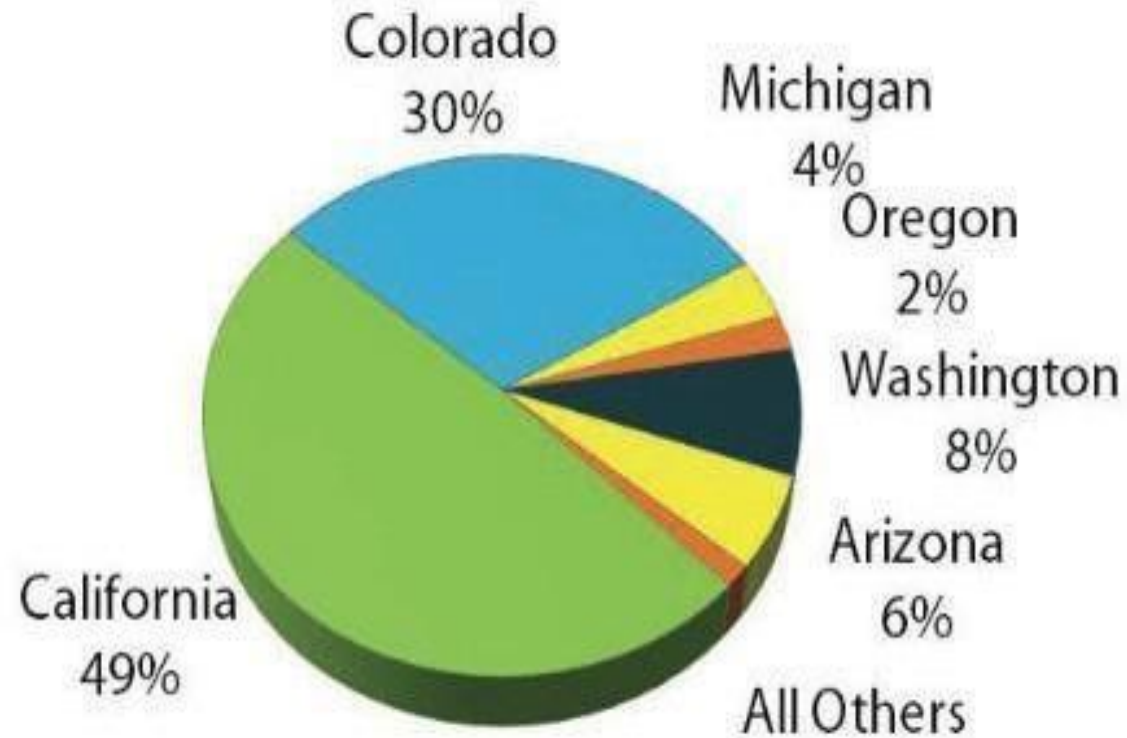
CANNABIS ECONOMIC TRENDS

- ✓ Cannabis industry set to generate \$7.6 billion in California by 2020
- ✓ Local communities are looking to benefit financially from commercial companies
- ✓ Creates jobs in the community directly and indirectly
- ✓ Misconceptions of sales/use tax exemption H&S 11362.71
- ✓ Health Benefits and Negative Impacts

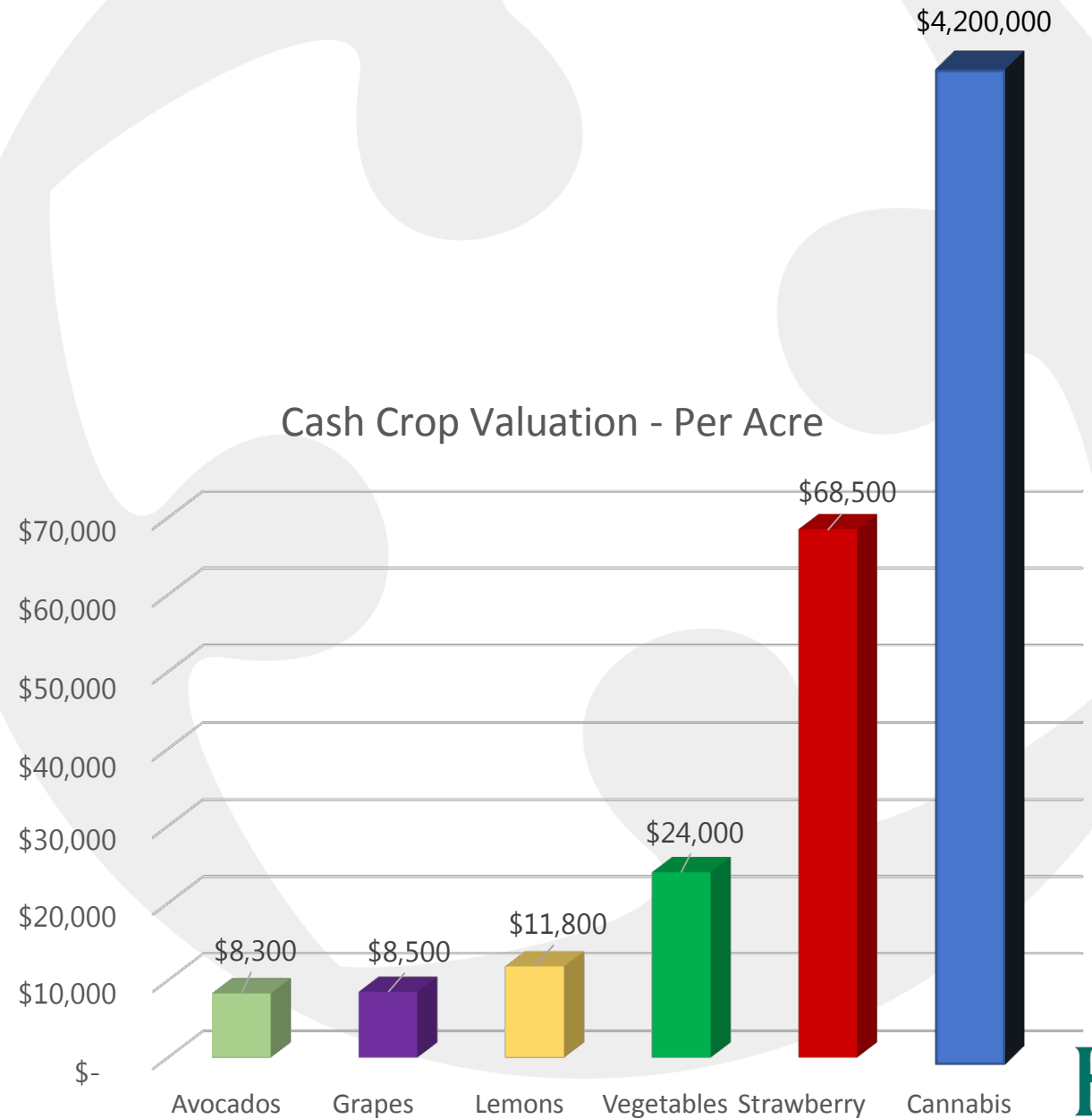




CALIFORNIA'S MARKET SHARE

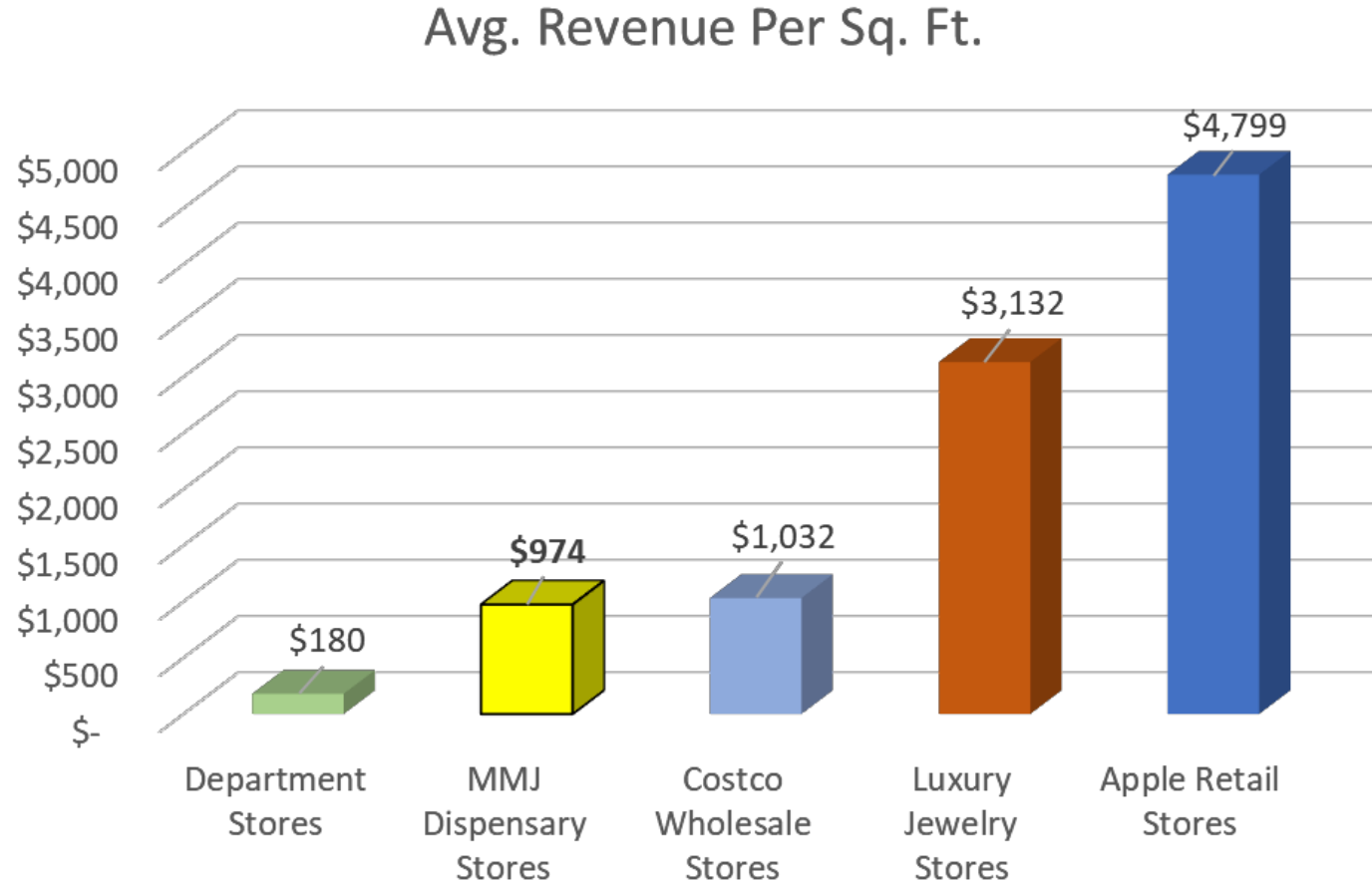


CASH CROPS VALUATION



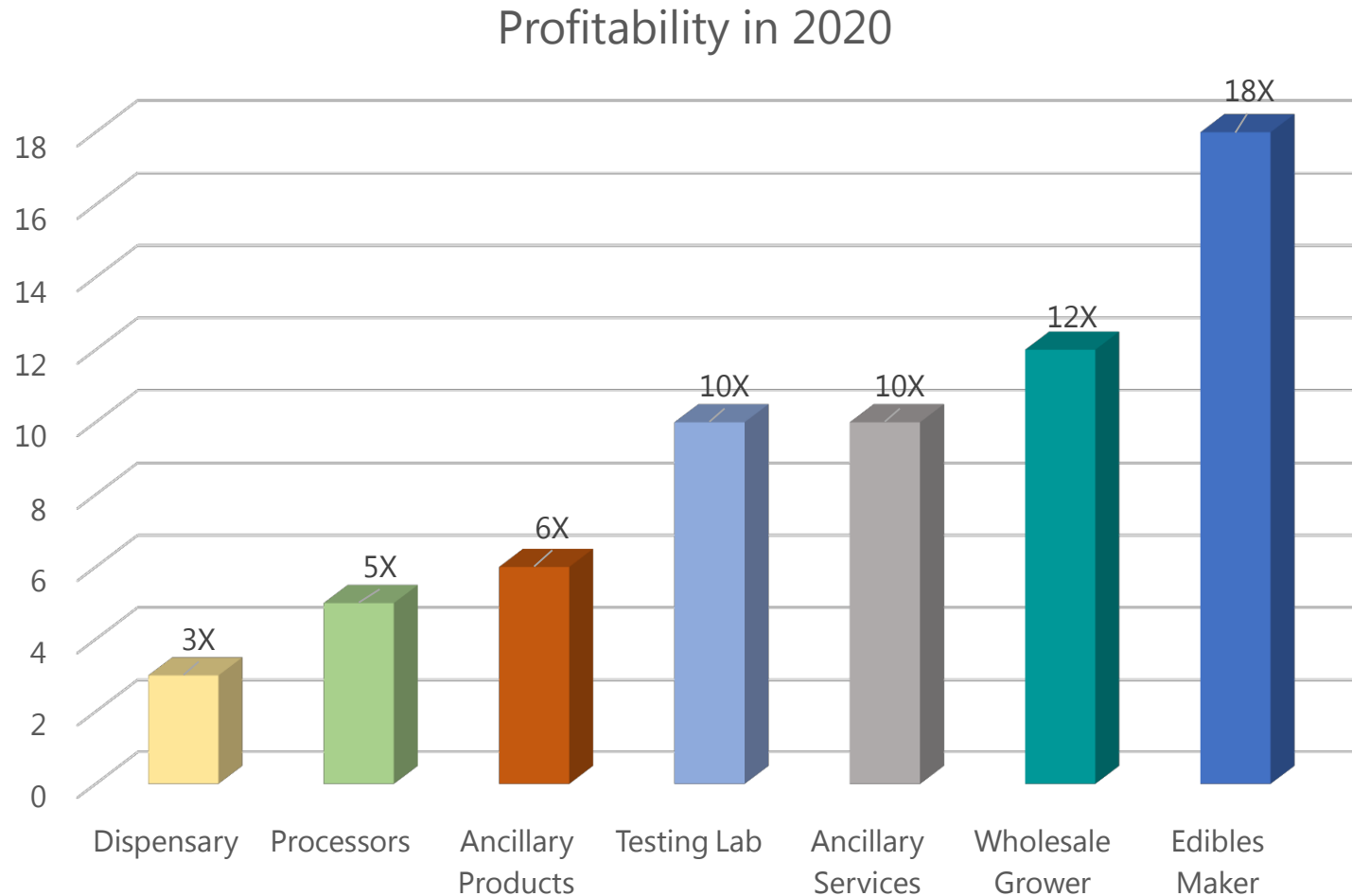


AVG. ANNUAL REVENUE PER SQ. FT.





PREDICTED PROFITABILITY IN 2020





RETAIL GROSS RECEIPTS: BEFORE & AFTER PROP 64 TOOK EFFECT

2017 Q4 through 2018 Q3

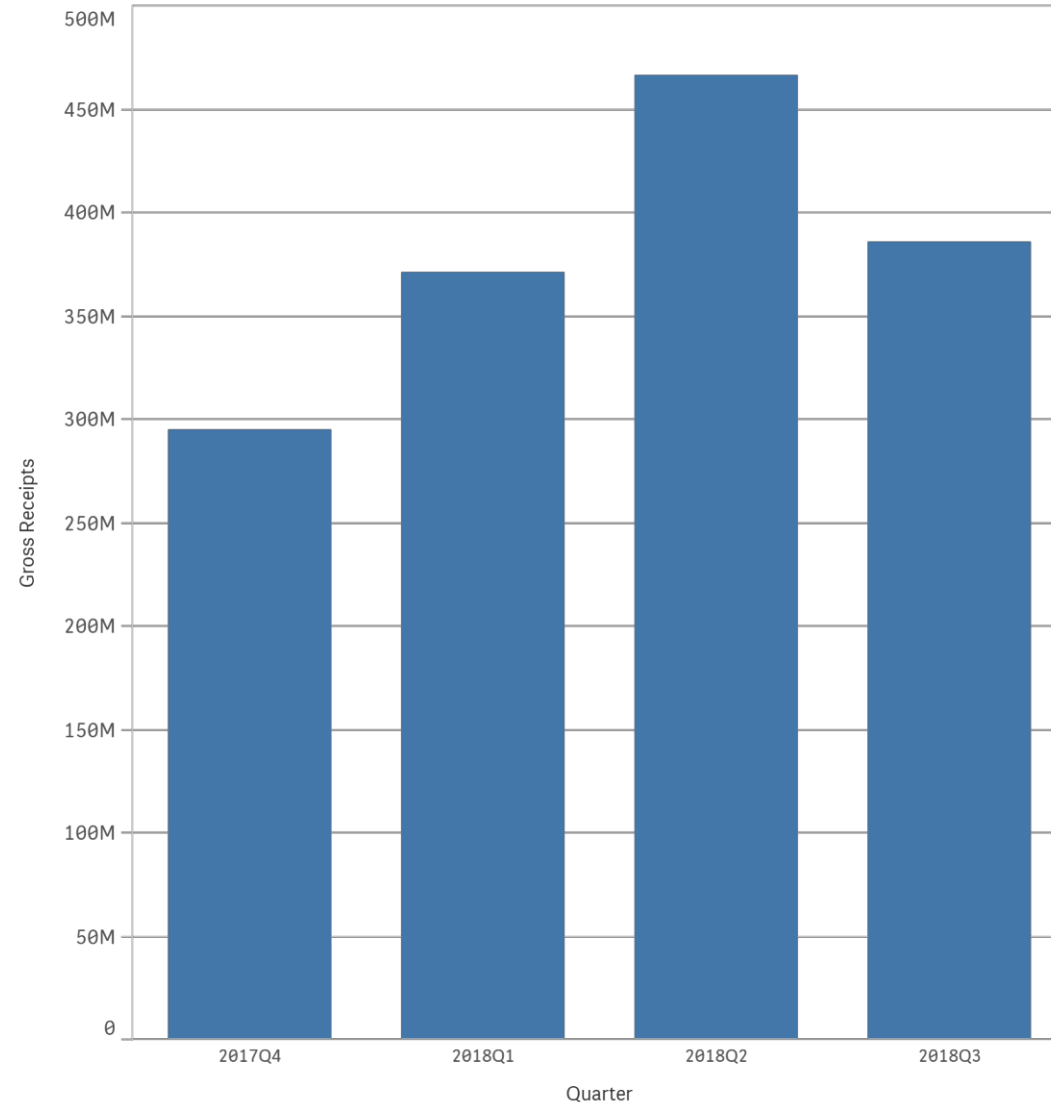
Gross Receipts

\$1,517,048,052

Local Tax Allocation (1%)

\$15,170,481

Gross Receipts by Quarter



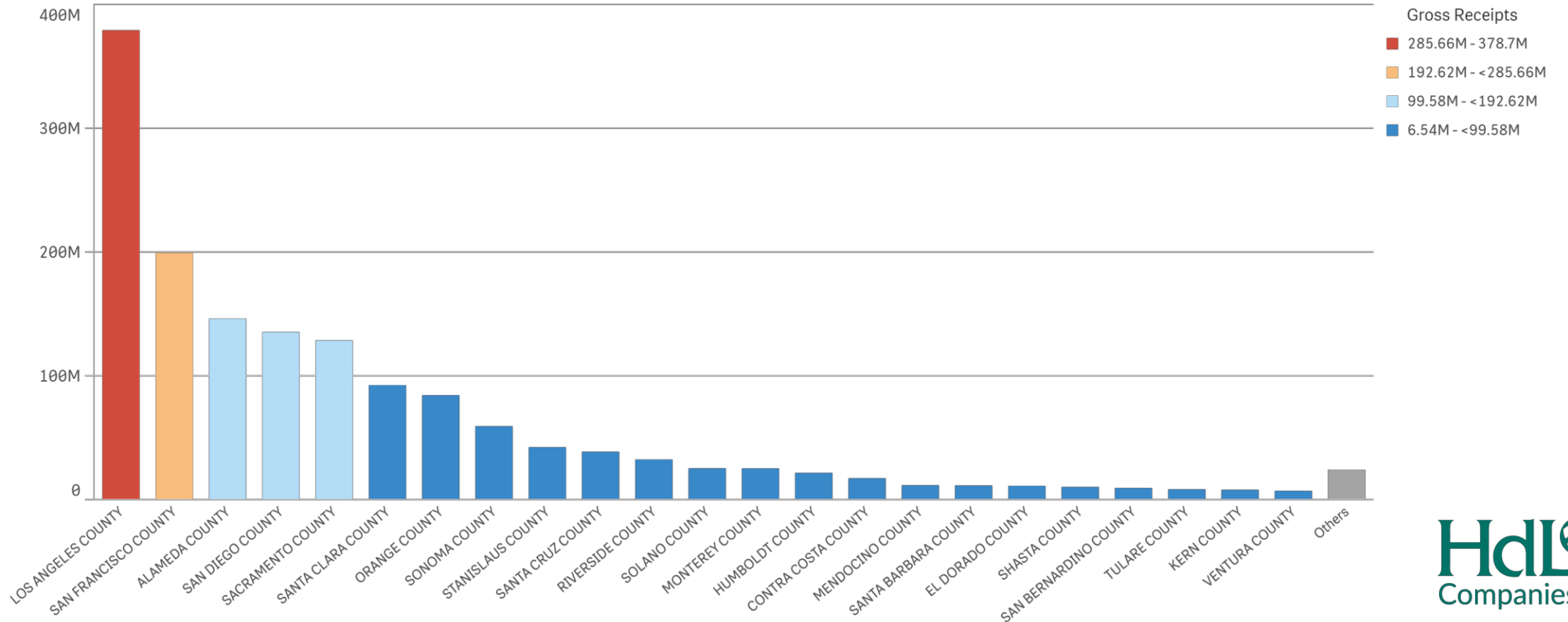


RETAIL GROSS RECEIPTS BY COUNTY

2017 Q4 through 2018 Q3

\$1,517,047,948

Retail Gross Receipts by County





HOW WILL MERGERS & ACQUISITIONS IMPACT THE CANNABIS INDUSTRY?





HOW DO MERGERS, ACQUISITIONS AND THE STOCK MARKET IMPACT CANNABIS BUSINESSES?

There are 35 cannabis businesses listed on the stock exchange.

- Creates first mover advantage over other businesses which are not on the Canadian or U.S. stock exchanges
- Businesses can leverage millions of dollars in funding to scale their business operations and brands
- They can acquire other businesses that help develop their business model
- They can build infrastructure to become vertically integrated throughout the state and country
- They can sustain longer term stabilization which other businesses may not be able to achieve



TOP CANNABIS BUSINESS STOCKS

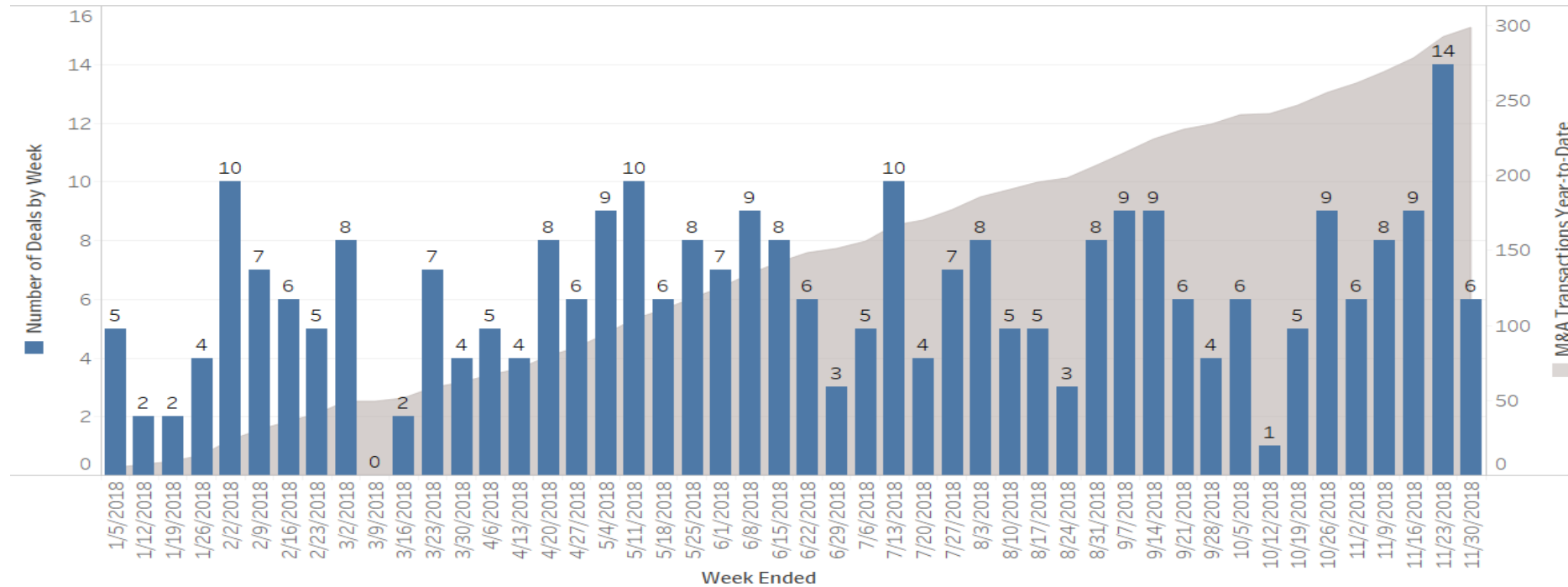
U.S. Dollar Reporting

Company Name	Stock Symbol	Quarter Ended	Quarterly Sales	Y/Y Growth	Next Financials
Trulieve	(CSE: TRUL)	06/30/18	\$23.3m	947%	11/19/18
MedMen Enterprises	(CSE: MMEN)	06/30/18	\$20.6m	1317%	11/29/18
Charlotte's Web Holdings	(CSE: CWEB)	06/30/18	\$17.2m	90%	~11/29/18
Curaleaf	(CSE: CURA)	06/30/18	\$14.6m	234%	11/26/18
Green Thumb Industries	(CSE: GTII)	06/30/18	\$13.6m	291%	11/27/18
CV Sciences	(OTCQB: CVSI)	09/30/18	\$13.6m	143%	~04/01/19
KushCo Holdings	(OTCQB: KSHB)	05/31/18	\$12.9m	173%	~11/29/18
Harvest Health & Recreation	(CSE: HARV)	06/30/18	\$10.5m	139%	~11/29/18
Tilray	(NASDAQ: TLRY)	09/30/18	\$10.0m	86%	~03/18/19
GrowGeneration	(OTCQB: GRWG)	09/30/18	\$8.4m	109%	~04/01/19
Terra Tech	(OTCQX: TRTC)	09/30/18	\$5.8m	-33%	~03/18/19
Golden Leaf Holdings	(CSE: GLH)	09/30/18	\$5.1m	63%	~04/30/19
Medicine Man Technologies	(OTCQX: MDCL)	09/30/18	\$4.6m	401%	~04/01/19
Planet 13 Holdings	(CSE: PLTH)	09/30/18	\$4.9m	62%	~04/30/19
Innovative Industrial Properties	(NYSE: IIPR)	09/30/18	\$3.9m	152%	~03/18/19
Halo Labs	(NEO:HALO)	09/30/18	\$3.6m	10%	~04/30/19
GW Pharma	(NASDAQ: GWPH)	06/30/18	\$3.5m	9%	~12/09/18
Cannex Capital	(CSE: CNNX)	07/31/18	\$3.4m	122%	~12/31/18
Marimed	(OTC:MRMD)	09/30/18	\$3.4m	98%	~04/01/19
Surna	(OTC:SRNA)	09/30/18	\$3.3m	112%	~04/01/19
Helix TCS	(OTC:HLIX)	09/30/18	\$3.1m	176%	~04/01/19

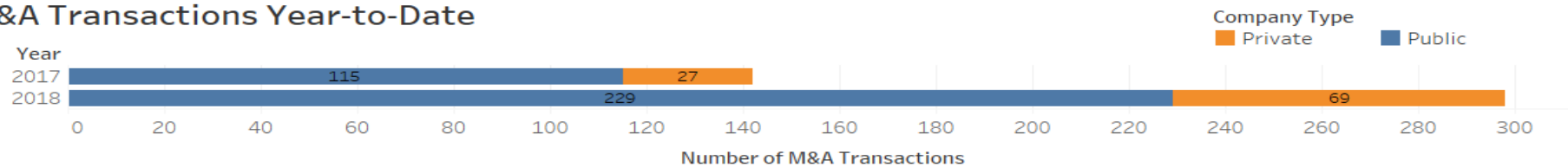


MERGERS & ACQUISITIONS YTD

M&A Transactions by Week



M&A Transactions Year-to-Date



Source: Viridian Capital Advisors
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WHO'S LOOKING AT CANNABIS?





WHO'S LOOKING AT CANNABIS?





HOW DO CITIES GENERATE REVENUE



Standard fees to recover City costs



General tax to be considered by voters in Elections; 50% +1;
Tax to general fund



CANNABIS STATE AND LOCAL TAX RATES

State Cannabis Excise Tax (Applies to medical and non-medical)

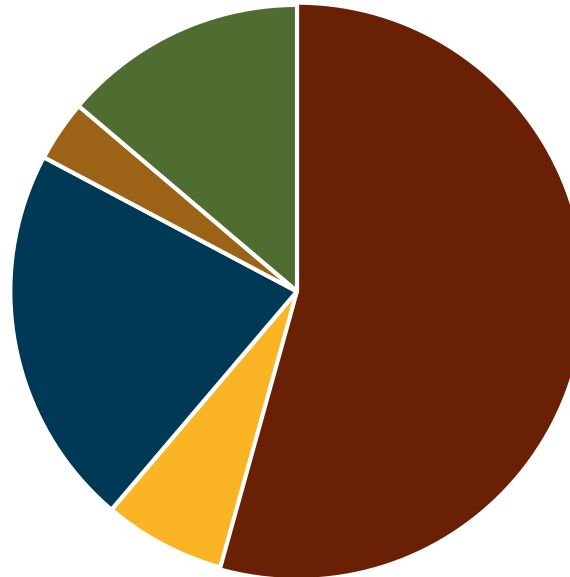
Retail Tax

15%
Gross Receipts of Retail Sales

Cultivation Tax

\$9.25/oz. Flowers
\$2.75/oz. Leaves

Sales and Use Tax: 7.25% + Adult-Use Subject to Tax Medicinal May be Subject to Tax



- State General Fund (3.9375%)
- Local Public Safety Fund (.50%)
- Local Revenue Fund (1.5625%)
- County Transportation Fund (.25%)
- City/County Operations Fund (1.00%)

City Cannabis Tax (Medicinal /Adult-Use)

XX% of Gross Receipts
\$XX Per Square Feet
\$XX Flat Rate
\$XX Per Weight

City Cost Recovery Fees (Prop 26) (Medicinal/Adult-Use)

\$XX Application Fee
\$XX License Fee
\$XX Renewal Fee
\$XX Administration Fee

Cumulative Cannabis Taxes- HdL Companies			
Category	Amount	Increase	Cumulative Price
Producer Price	\$1,000	\$1,000	\$1,000
State Cultivation Tax	\$9.25/oz	\$148	\$1,148
Local Tax	2.50%	\$25	\$1,173
Batch Testing	\$50/lb, + 0.50%	\$55	\$1,228
Wholesale Price w/ Taxes		\$1,228	
Total Tax at Wholesale		\$228	
Tax as %		22.80%	
Manufacturer Markup	20.00%	\$246	\$1,474
Local Tax	4.00%	\$59	\$1,533
Total Manufacturer Price		\$1,533	
Total Taxes at Manufacturer		\$287	
Total Tax as %		18.72%	
Distributor Markup	30.00%	\$460	\$1,992
Local Tax	3.00%	\$60	\$2,052
Total Distributor Price		\$2,052	
Total Taxes at Distributor		\$347	
Total Tax as %		16.90%	
Retailer Markup	100.00%	\$2,052	\$4,104
Local Tax	6.00%	\$246	\$4,350
State Excise Tax	15.00%	\$616	\$4,966
Total Retailer Price		\$4,966	
Total Taxes at Retail		\$1,209	
Total Tax as %		24.34%	
CA Sales Tax (non-medical)	6.25%	\$310	\$5,276
Local Sales Tax	1.00%	\$50	\$5,326
Total Taxes at Retail		\$1,569	
Total Tax as %		29.45%	
Total Local Tax		8.25%	\$439.62

CUMULATIVE CANNABIS TAXES HdL Analysis



The Size of The California Cannabis Industry





CANNABIS LICENSES BY TYPE AS OF 4/22/19

4271 Cultivation
1330 Manufacturer
628 Retailers
312 Retailers Non-Storefront
1212 Distributors
183 Distributor Transport Only
293 Microbusinesses
49 Testing Labs
102 Cannabis Event Organizers
8,380 Total



CALIFORNIA'S CANNABIS MARKET

- ✓ Total Statewide Cannabis Production: 13.5 million pounds
(CDFA Estimate)

- ✓ Total Statewide Cannabis Consumption: 2.5 million pounds
(CDFA Estimate)

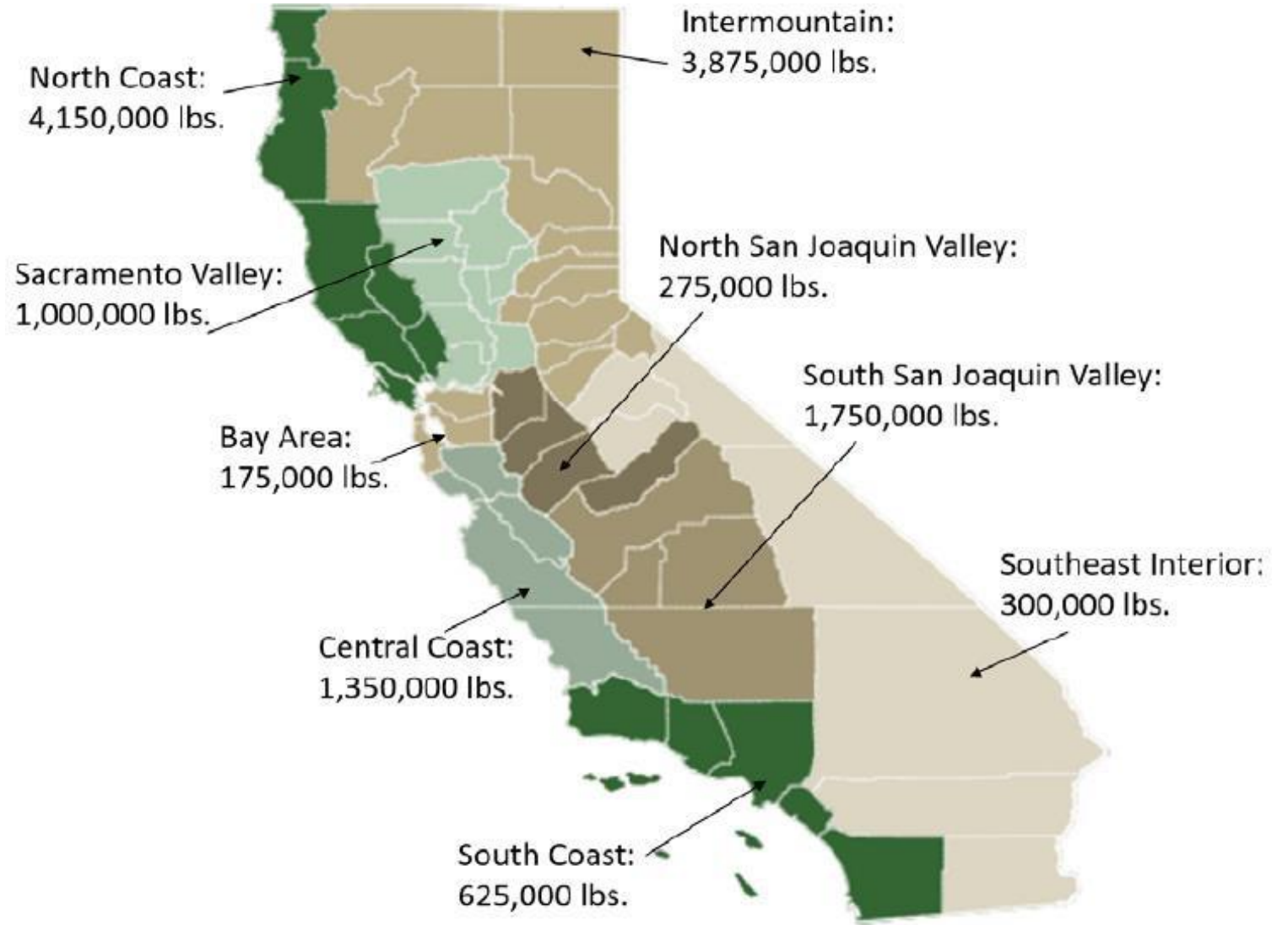
- ✓ Total Statewide Cannabis Consumption: 1.6 million pounds
(California Cannabis Opportunity Report)

- ✓ Current Number of Cultivation Licenses Statewide: 4,271*

- ✓ Potential Cannabis Production 4.2 to 6.4 million pounds*

**California Department of Food and Agriculture Database – April 22, 2019*

REGIONAL CANNABIS PRODUCTION





TAKEAWAYS

- ✓ Cannabis cultivation in California exceeds the size of the legal market by 5 to 8 times
- ✓ Interest in legal cultivation licenses exceeds the size of the legal market by 12 to 16 times
- ✓ California's entire market could potentially be supplied by as few as 200 Type 3A Medium Indoor grows



WHERE DO WE GO FROM HERE?





NEXT STEPS

City Council directed Staff:

- Continue researching potential impacts and benefits associated with recreational cannabis businesses within the City.
 - Public Health and Safety concerns.
 - Possible impacts to existing businesses.
 - Legal issues regarding local control of deliveries.
 - Levels of taxation.
 - Enforcement of regulations.
 - Potential negative image issues for the City.
 - Possible economic benefits.
- Prepare an ordinance to ban all recreational and medical cannabis business types until all issues are addressed properly.



THANK YOU!

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