

Introduction and Summary

On behalf of the California Growers Association (Cal Growers) it is a pleasure to present you with these initial comments, recommendations and considerations regarding the establishment of a regulatory framework for marijuana related businesses in the City.

Cal Growers is a statewide membership organization representing over 600 members in 46 counties throughout California, including close to 100 in the Greater Los Angeles region and several dozens in the City.

I would like to applaud the work the City has done to stimulate dialogue on this very important policy area. It is encouraging to see California's largest city—the nation's largest cannabis marketplace—emerging as a leader in the statewide effort to implement the Medical Cannabis Regulatory and Safety Act. Appropriately, with this dialogue, the City also joins other major municipalities in preparing for the possible passage of Proposition 64.

Thank you for this opportunity to participate in this conversation and we look forward to working with you to establish an effective, fair and dynamic cannabis framework for regulating cannabis in Los Angeles

Respectfully,

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A. FUNDAMENTAL QUESTIONS

Our organization supports the establishment of an effectively regulated and fair marketplace for cannabis in Los Angeles. Prop D MMDs should be allowed to participate but should receive no precedence. The marketplace should be dynamic and diverse, creating opportunities specifically for small businesses, minority owned businesses and women owned businesses.

A1. WHAT MARIJUANA RELATED MARIJUANA BUSINESSES SHOULD BE REPRESENTED IN THE REGULATED

We recommend Option 3 or option 5.

The city should enact a comprehensive regulatory framework that provides opportunity for all businesses that intend to seek state licensure in the following categories:

A2. BUILD ON THE MMRSA

Yes, the city should establish a regulatory framework that is consistent with and compliments the MMRSA.

The MMRSA provides a solid foundation to build on. Proposition 64 is generally consistent with the MMRSA though their important differences. Differences in the licensing framework are identified in the following section.

A3. REGULATORY FRAMEWORK

Recommend: A3a: Establish a single regulatory framework that is consistent with MMRSA and AUMA.

The regulatory framework should include guidelines for all of the following license types:

The MMRSA establishes the following license types:

- Type 1 = Cultivation; Specialty outdoor; Small.
- Type 1A = Cultivation; Specialty indoor; Small.
- Type 1B = Cultivation; Specialty mixed-light; Small.
- Type 2 = Cultivation; Outdoor; Small.
- Type 2A = Cultivation; Indoor; Small.
- Type 2B = Cultivation; Mixed-light; Small.
- Type 3 = Cultivation; Outdoor; Medium.
- Type 3A = Cultivation; Indoor; Medium.
- Type 3B = Cultivation; Mixed-light; Medium.
- Type 4 = Cultivation; Nursery.
- Type 6 = Manufacturer 1.
- Type 7 = Manufacturer 2.
- Type 8 = Testing.
- Type 10 = Dispensary; General.
- Type 10A = Dispensary; No more than three retail sites.
- Type 11 = Distribution.
- Type 12 = Transporter.

In addition, a “Type 1C: Specialty cultivation: Cottage” license is pending in the state legislature.

Proposition 64 creates similar license types but also establishes the following:

- Type 5 = Cultivation; Outdoor; Large.
- Type 5A = Cultivation; Indoor; Large.
- Type 5B = Cultivation; Mixed-light; Large.
- Type 12 = Microbusiness.

Proposition 64 does not create a transportation license.

B. RETAIL SALES, CULTIVATION, MANUFACTURE, DISTRIBUTION AND TESTING

B1. STOREFRONT RETAIL

The number of retail MRBs should not be capped at 135. Caps lead to problematic market conditions:

1. Leads to consolidated ownership: In a marketplace subject to a cap, the permit itself will take on value over time and over time ownership will become consolidated and only well capitalized interests will be able to operate.
2. Creates a barrier to entry and will severely impact many of the communities that have been disproportionately impacted by failed drug policies
3. Stifles innovation and entrepreneurialism within the business community.
4. Creates continued opportunity for unregulated business to exploit market failures caused by severely limited access to the regulated marketplace
5. Los Angeles is one of the largest cannabis marketplaces in the world. This will be true whether or not consumers have regulated access. Capping the number of retailers does not limit market access it just forces consumers and businesses into the unregulated market.

We could likely support either a higher cap provided there were protections for small business and diversity of ownership. However, we would prefer a system with no caps. Also consider a higher cap with either a sunset or provision or provisions requiring the council to revisit the cap at a future date.

If there are caps, we recommend they be based on each specific permit type.

B2. PROP D MMDS

Prop D MMDs should be allowed to participate in the system. Prop D MMDs should be subject to the same regulations and standards.

B4. CULTIVATION

Yes, cultivation should be allowed.

Consider the three license types in state law: indoor, outdoor and mixed light. It seems appropriate to restrict outdoor and mixed light growing to agricultural and industrial land. However, with the right rules indoor growing can be appropriate in other zones.

The city should establish clear guidelines for the following cultivation license types:

| | Outdoor | Indoor | Mixed-light | Proposed: AB 2516 |
|--|----------------|---------------|--------------------|--|
| Type 1: Specialty Up to 5,000 square feet (1/8 of an acre) | Type 1 | Type 1A | Type 1B | Type 1C Cottage Up to 2500 square feet outdoor and mixed light or 500 square feet indoor |
| Type 2: Small Up to 10,000 square feet (1/4 of an acre) | Type 2 | Type 2A | Type 2B | |
| Type 3: Medium Up to 22,000 square feet (1/2 acre) for indoor and mixed light or 1 acre for outdoor | Type 3 | Type 3A | Type 3B | |
| Proposed Prop 64: Type 5: Unlimited acreage | Type 5 | Type 5A | Type 5 B | |

Our organization has sponsored legislation to establish a “cottage cultivation” license at the stage level. This reflects the reality that for many people in our state, including in LA, micro scale cultivation is an important source of supplemental or subsistence income. We do not have specific recommendations for cottage cultivation for your council at this point, however we do recommend that you specifically consider this segment of the marketplace. It is a particularly challenging piece of the cannabis policy puzzle.

The city should consider the following specific impacts for cultivation:

| | Outdoor | Indoor | Mixed-light |
|-------------------------------|-----------------------------|---------------------------------|---------------------------------|
| Water Quantity | Longest growing season | Hydroponic is low impact | Depends on growing method |
| Water Quality | Wastewater | Wastewater | Wastewater |
| Energy | Minimal impacts | Significant energy impacts | Reduced impacts |
| Commercial space and land use | Odor and visibility impacts | Impacts can be mitigated | Impact can be mitigated |
| Building code | Minimal | Wiring is a significant concern | Wiring is a significant concern |

| | | | |
|-------------------|---|----------------------------|----------------------------|
| Security concerns | High; visibility and accessibility issues | Easiest to manage | Depends on requirements |
| Traffic | Minimal | Minimal | Minimal |
| Workforce | More seasonal work | More consistent employment | More consistent employment |

B5. MANUFACTURING

The City should permit manufacturing operations that comply with state law.

B6. DELIVERY SERVICES

Yes; permits should be issued for the following activities:

1. “Storefront dispensary” for licensees who have a brick and mortar dispensary with direct physical access for the public.
2. “Nonstorefront dispensary” for licensees who have a brick and mortar dispensary that does not have a storefront with direct physical access for the public.

Delivery services can increase access while minimizing neighborhood impacts. More delivery services could be permitted to offset challenges created by a cap on storefront operations.

Land use restrictions and other requirements should be consistent for both types of retail though their may be specific rules that would apply differently to the two business types. Additional restrictions to consider for delivery services:

- Require a “membership program” so operators can verify the consumer prior to delivery
- Restrict the hours when deliveries can be made
- Require driver training and permitting
- Limit the value of the products a delivery driver can transport

B7. WATER AND POWER

Yes, the city should require DWP to assess electrical systems at the site specific level but also at the citywide level.

DWP should also review SB 837 and develop BMP guidelines for water use in the City.

B8. CONTINUING COMPLIANCE

Consider opportunities to collaborate with LA county ag department for inspections of cultivation operations.

Cal Growers generally wants to move away from law enforcement based regulation, however we would compromise and support inspections consistent with liquor stores.

We generally support ongoing oversight to verify continued compliance. Consider coordinating with state agencies to ensure minimal disruption to business operations and reduce burden for permittees.

B9. PUBLIC SAFETY MEASURES.

We support measures to address public safety impacts. We commit to reviewing specific proposal and providing timely feedback.

C. OTHER CONSIDERATIONS

- Licenses should be tied to both location and individuals.
- We recommend the most streamlined application process possible. Barriers to entry should be low but expectations of compliance should be high.
- License should be renewed annually with consideration for longer term licenses after 3 or 5 years of compliance.
- Permitted businesses should be able to operate in either or both the medical and the adult use marketplace.

ENSURE A DIVERSITY OF OWNERS

Los Angeles is a beautiful tapestry of ethnicities and cultures. Cannabis has a place in all of them. The owners of the cannabis businesses serving this community should reflect this diversity. Cal Growers recommends the development of an equity program to ensure minority owned business are a feature of the regulated future.

- Establish an equity program that ensure permits are issued to minority and female owned businesses

ENSURE OPPORTUNITY FOR SMALL BUSINESSES

State law creates specific licenses for specialty and small cultivators. However, state law does not create these tiers for manufacturing or retail. The city should create specific permits for small MRBs.

The city should consider:

- Creating specific permits and fee structure for Type 1, Type 2 and Type 3 cultivators
- Creating permits specifically for small MRBs; Defining permit tiers for manufacturer and retailer
- Streamlined permitting program for small MRBs
- Reduced fees for small cultivators and businesses
- Reduced taxes for small cultivators and businesses
- Establish a limit on the number of retail permits an applicant is allowed to hold

PROMOTE LOCAL OWNERSHIP

While medium and unlimited cultivation permits may be challenging in Los Angeles, the city could realize tremendous value by creating opportunity for local ownership of the entire value chain. Specifically, the city could

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enjoy enhanced benefit and reduced impacts from creating opportunity for specialty and small cultivators and manufacturers who produce value added products and brands.

The city could consider:

- MRB Campuses and/or pre-qualified zoning areas
- Clustering and relocation should be considered as a strategy for moving cottage and specialty grows from residential areas

INTEGRATE INTO THE STATEWIDE MARKETPLACE

Los Angeles is the largest cannabis marketplace in the largest cannabis producing state. However, challenges created by Prop D at the local level, the lack of regulations statewide and the risks associated with distribution have kept this important marketplace insulated from the rest of the state. The city can reduce local impacts by appropriately limiting the scope and scale of commercial activity. These limitations may disrupt supply chains. However, the city can mitigate this disruption by:

- Establishing clear guidelines for permitting distribution businesses in the City
- Establishing clear guidelines for permitting testing businesses in the City

CONSIDER A REGISTRY

Several local jurisdictions have benefited from

D. LAND USE AND ZONING

D1. COMMERCIAL CANNABIS AS A LAND USE

We support specific zoning limitations for MRBs.

D2. PROXIMITY LIMITS

Proximity limits could be very valuable but I am concerned that it may be a time consuming process. Perhaps consider granting interim permits while proximity limits are developed.

E. REVENUE ENHANCEMENT

E1. TAX RATE AND POINT OF IMPOSITION

We support a tax imposed at the distribution level.

We recommend a flower tax and a manufactured products tax.

We support a tiered tax rate with reduced rates for cottage, specialty and small businesses.

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- Flower Tax: \$4 per ounce for Type 1 Licenses; \$9 per ounce for Type 2 Licenses; \$13 per ounce for Type 3 Licenses
- Manufactured Product Tax:
- Flat rate of value
- Impose the tax at the distributor step in the supply chain.

Proposition 64 would create challenges for this type of tax because it removes the mandate requiring distribution at the state level. It is possible that the City could require distribution even if Prop 64 is successful. This would allow the City to maintain greater control over the marketplace.

E2. INSPECTION FEES

Square footage for cultivation. Consider a tiered fee structure with a higher rate for larger licenses.

Fixed cost for manufacture, testing lab, distribution and retail. Consider developing tiers to establish reduced fees for cottage, specialty and small businesses.