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Interim Director

**COUNTY OF LOS ANGELES
DEPARTMENT OF
CONSUMER AND BUSINESS AFFAIRS**

Members of the Board

Hilda L. Solis
Mark Ridley-Thomas
Sheila Kuehl
Janice Hahn
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"To Enrich Lives Through Effective and Caring Service"

June 19, 2018

To: Supervisor Sheila Kuehl, Chair
Supervisor Hilda L. Solis
Supervisor Mark Ridley-Thomas
Supervisor Janice Hahn
Supervisor Kathryn Barger

From: Joseph M. Nicchitta 
Interim Director of Consumer and Business Affairs

**REPORT AND ANALYSIS ON OPTIONS TO IMPLEMENT A POLICY FRAMEWORK
FOR REGULATING COMMERCIAL MEDICAL AND ADULT-USE CANNABIS IN
UNINCORPORATED AREAS (ITEM NOS. 3 AND 9, AGENDA OF FEBRUARY 7,
2017, and ITEM NO. 2, AGENDA OF NOVEMBER 7, 2017)**

On February 7, 2017, your Board directed the Chief Executive Office (CEO) and its Office of Cannabis Management (OCM)¹ to coordinate with multiple other departments to prepare regulations to allow and license medical and adult-use cannabis businesses in unincorporated areas, including cultivation, distribution, testing, manufacturing, and retail.

Pursuant to your Board's directives on February 7, 2017, the OCM conducted extensive outreach to solicit feedback on stakeholder desires and concerns for commercial cannabis regulation. Outreach efforts included the convening of the Los Angeles County Advisory Working Group on Cannabis Regulation (Advisory Working Group), which consisted of 17 representative stakeholders such as drug policy experts, university professors, public health professionals, local elected officials, and community members; approximately 60 presentations to community groups, town councils, and County commissions; and 20 public workshops (listening sessions) throughout the County to solicit feedback from community members. The OCM published reports documenting its outreach efforts in October 2017. The reports are available online at <http://cannabis.lacounty.gov/documents-and-reports>.

On November 7, 2017, your Board directed the CEO to work with County Counsel and the Department of Public Health and its Center for Health Equity to develop a health equity model for commercial cannabis permitting, including a discretionary hearing process for

¹ As of May 2018, the OCM reports to the Interim Director of the Department of Consumer and Business Affairs.

cannabis retailers and phased-in permitting, among other things.

Currently, commercial cannabis activities are prohibited in unincorporated areas. This report outlines three options your Board can take with respect to commercial cannabis in unincorporated areas:

1. Allow and regulate all types of medical and adult-use commercial cannabis activity in unincorporated areas. This report outlines the components of a policy framework that would establish rules and regulations for permitting and regulating commercial cannabis activities. This framework is responsive to your Board's directives and incorporates input received by OCM during public outreach and stakeholder engagement.
2. Allow and regulate commercial cannabis but limit the types of businesses that can locate in unincorporated areas (e.g., allow commercial medical cannabis activities only, and limit business types to retail only).
3. Keep the prohibition on commercial cannabis in unincorporated areas in place.

The following documents are attached to this report:

- **Attachment I: Analysis of Policy Framework Components.** Attachment I contains a detailed analysis of each of the components of the policy framework described below. For your Board's convenience, this report describes each component in summary form.
- **Attachment II: Advisory Working Group Recommendations.** The OCM convened the Advisory Working Group, a group of experts and stakeholders, in June 2017 to provide advisory direction on cannabis regulations in unincorporated areas. The Advisory Working Group's 64 consensus-based recommendations are provided in Attachment II.
- **Attachment III: Maps.** Attachment III contains maps showing where cannabis businesses would be allowed to locate if the Board adopts this policy framework. These maps are available online at <http://planning.lacounty.gov/cannabis/maps>.
- **Attachment IV: Report on Cannabis Tax Consideration.** In November 2016, the OCM provided your Board with a report on potential cannabis tax revenues should the County adopt a local gross receipts tax on commercial cannabis activities. The tax revenue analysis has been revised and updated to reflect current laws, tax rates adopted by voters in Los Angeles County cities, and the number and types of cannabis businesses that would be permitted pursuant to the policy framework presented in Option 1, below.

OPTION 1: ALLOW AND REGULATE ALL TYPES OF MEDICAL AND ADULT-USE COMMERCIAL CANNABIS ACTIVITIES

Regulatory Framework

Should your Board decide to allow and regulate all types of medical and adult-use commercial cannabis activities, your Board may put into place a regulatory structure that promotes health equity, ensures the health and safety of consumers and people living and working nearby, prevents cannabis businesses from causing blight or becoming nuisances in their communities, takes residents' concerns into account, and does not promote commercial cannabis activities at the expense of other considerations.

The regulatory framework below consists of eight components which implement your Board's directives in February and November 2017, and reflect the recommendations provided by the Advisory Working Group, input received from the public, and close consultation with affected County departments, including but not limited to CEO, County Counsel, the District Attorney, the Sheriff, the Treasurer and Tax Collector, and the Departments of Agricultural Commissioner/Weights and Measures, Fire, Public Health, Public Works, and Regional Planning.

The eight components include:

- **Framework Component No. 1:** Establish a new cannabis commission to conduct public hearings on cannabis business applications, advise the Board of Supervisors on the effectiveness of cannabis regulations in unincorporated areas, and recommend cannabis-related policy or ordinance changes to the Board of Supervisors; and include the Treasurer and Tax Collector, the County Agricultural Commissioner, the Fire Chief, the Health Officer, the Director of the Center for Health Equity, and the Director of Regional Planning, or their designees, as advisory, non-voting members of the cannabis commission;
- **Framework Component No. 2:** Complete a health impact assessment on the health equity impacts of permitting cannabis businesses in unincorporated areas; identify data points and establish a system to monitor community health information as cannabis permitting is implemented, using the health impact assessment as the baseline for relevant health-related conditions and outcomes in unincorporated areas; and report in writing to the Board upon completion of the health impact assessment with recommendations to incorporate health equity into cannabis regulations, and create a grant program to serve high-needs areas identified by the health impact assessment, as directed by your Board on November 7, 2017;
- **Framework Component No. 3:** Prepare ordinance amendments to create permits to allow cannabis stores, delivery services, indoor cultivation, manufacturing, distribution, and testing laboratories in unincorporated areas; outdoor cultivation will remain prohibited;

- **Framework Component No. 4:** Prepare ordinance amendments to limit the availability of cannabis permits in the first two years to 25 cannabis store permits, with no more than five store permits per supervisorial district and no more than two cannabis store permits in any one unincorporated community, 25 cannabis delivery permits, with no more than five delivery permits per supervisorial district, 10 cultivation permits, 10 manufacturing permits, 10 distribution permits, and 10 testing laboratory permits;
- **Framework Component No. 5:** Prepare an ordinance amending Title 22 of the County Code (Zoning Code) to allow cannabis stores, delivery, and testing laboratories in heavy commercial and manufacturing zones, and allow all other commercial cannabis businesses in manufacturing zones only; and require cannabis stores to be located not less than 1,000 feet from schools (K-12), 600 feet from day cares (including preschools), public parks, public libraries, licensed drug and alcohol treatment centers, and other cannabis stores, and 300 feet from off-site alcohol sales, such as liquor stores; and requires all other commercial cannabis businesses to be located not less than 1,000 feet from schools (K-12) and 600 feet from day cares (including preschools), public parks, and public libraries;
- **Framework Component No. 6:** Convene a culturally competent public workshop to solicit stakeholder feedback about who should qualify for benefits under a program to reduce barriers to entry to cannabis industry ownership and employment for those living in communities disproportionately impacted by the “war on drugs,” and what types of benefits should be offered under such a program, and report back in writing to your Board with recommendations for the program;
- **Framework Component No. 7:** Prepare necessary ordinances to create a 15-member, Board-appointed cannabis advisory review panel, which will be advisory to the Board and the cannabis commission, and will periodically issue public reports evaluating the effectiveness of the County’s cannabis equity initiatives, the impacts of cannabis legalization on health equity and County neighborhoods, and equity in the civil and criminal enforcement of cannabis laws; and
- **Framework Component No. 8:** Prepare an ordinance amending Title 7 of the County Code (Business Licenses) to license and regulate, from a business license perspective, commercial medical and adult-use cannabis businesses.

A detailed analysis of each framework component is included in Attachment I. Should your Board decide to adopt the regulatory framework described above, it is estimated that drafting appropriate ordinances and creating the necessary County infrastructure to implement regulations could be accomplished in approximately 180 days.

Ensuring Equity

A primary goal of the regulatory framework described above is to ensure that cannabis regulations do not result in disproportionate impacts in any one community, or contribute to a decline in health outcomes. However, the diverse geography and demographics across Supervisorial Districts and unincorporated communities can make it difficult to achieve equity through traditional tools like zoning and buffering alone. For example, some unincorporated communities have more industrial zoning or contain major commercial corridors, which tend to attract uses that are more likely to affect health and social outcomes in a negative way, such as liquor stores and polluting industries. As mandatory buffer distances from schools and other common uses increase, available zoning tends to concentrate in already-impacted industrial and industrial-adjacent neighborhoods, or in areas like the Antelope Valley where properties tend to be larger and spread apart.

For this reason, the regulatory framework described above includes the preparation of a health impact assessment by the Department of Public Health, in collaboration with OCM (Framework Component No. 2). A health impact assessment is a systematic process for assessing the potential impacts of pending policy, program or project decisions outside of the traditional health sector on the health of populations and the distribution of those effects within populations. Health impact assessments inform decision-makers by providing recommendations on ways to augment the potential health benefits and/or mitigate the potential harms of proposed programs, projects or policies using a broad conception of health that includes both health outcomes (e.g., diseases, disabilities, conditions) and the social determinants of health (e.g., housing, income, social connections).

Among other things, the health impact assessment for cannabis regulation would offer multipronged recommendations for incorporating equity considerations into the County's cannabis policies in unincorporated areas, and can guide the decisions of a cannabis commission on a particular cannabis business application. Recommendations could include, for example, limiting the availability of cannabis stores in some communities, or implementing creative zoning solutions to address potentially disparate outcomes, which could result in changes to the zoning rules outlined above (Framework Component No. 5).

The Department of Public Health has already commenced preparation of the health impact assessment, and it is expected that the health impact assessment will yield action-items and recommendations by late 2018. Should your Board decide to allow and regulate commercial cannabis businesses in unincorporated areas, the health impact assessment's recommendations could be implemented as part of the ordinances prepared to implement the regulatory framework. Ongoing monitoring of development patterns will also be necessary, and adjustments proposed to the regulatory system, to ensure equity on an ongoing basis.

Taxing Commercial Cannabis

State law authorizes counties to “impose a tax on the privilege of cultivating, manufacturing, producing, processing, preparing, storing, providing, donating, selling, or distributing cannabis or cannabis products” by licensed commercial cannabis businesses. (Revenue and Taxation Code section 34021.5(a)(1)). The tax can be imposed countywide or in the unincorporated areas only, and can be a general tax, which must be approved by more than 50 percent of voters, or a special tax, which must be approved by more than two-thirds of voters. General tax revenues can be used for any governmental purpose. Special tax revenues must be used for the purposes specified in the ordinance approved by the voters.

During its stakeholder engagement efforts, the OCM received consistent feedback that commercial cannabis activities should be taxed locally and revenue used for specific purposes. Should your Board decide to implement the regulatory framework described in this report, your Board may also direct County Counsel, in collaboration with the CEO and OCM, to prepare a ballot measure and ordinance that implements the recommended commercial cannabis tax rates identified in the OCM's cannabis tax revenue report (Attachment IV), which could result in revenues of approximately \$18.3 million in year one of permitting, increasing to \$33.9 million after five years. A detailed analysis of the tax projections is contained in Attachments I and IV.

The OCM also received stakeholder recommendations and community feedback about how the County should spend cannabis tax revenue. In connection with any ballot measure and ordinance for a general or special tax, your Board can direct the OCM to consult with CEO, the Department of Public Health and other appropriate County departments, to provide your Board with recommendations for a spending plan for cannabis tax revenues that is informed by stakeholder recommendations and community feedback received by the OCM, and takes into account projected revenues, which could vary substantially depending on the level of regulated commercial cannabis activity your Board may decide to approve.

The next opportunity to place a measure on the ballot is November 2018, and the last day your Board may act to place a ballot measure on the ballot for November 2018 is August 10, 2018.

Budget and Fiscal Impact

The CEO would need to work with all affected departments to determine the budget impacts of the cannabis regulatory framework and report back in writing to your Board on such impacts, including but not limited to new staff, software and/or systems needs, and other necessary resources. However, your Board has already provided funding and resources to most affected departments in response to changing cannabis laws at the State level and, in consultation with the CEO, the OCM has preliminarily concluded that most departments would not need additional resources to implement the above regulatory framework, with the following exceptions:

- If your Board decides to allow and regulate commercial cannabis in unincorporated areas, the Department of Consumer and Business Affairs may require additional positions and resources, such as case management software, to build out a cannabis management unit to staff the cannabis commission, review applications, and enforce the cannabis regulatory framework; and
- The Treasurer and Tax Collector may need to upgrade case processing and tracking software. Acquisition and implementation costs are estimated at \$250,000 to \$300,000. Ongoing maintenance and service costs are expected to be cost recovered through licensing fees.

If your Board decides to allow and regulate commercial cannabis, the CEO will work with all affected departments to provide your Board with detailed budgetary impacts in the Supplemental phase of the Fiscal Year 2018-19 Budget in September 2018.

In addition, implementation of the cannabis regulatory framework and voter approval of the excise (gross receipts) tax rates identified in Attachment IV is expected to generate approximately \$18.3 million in 2019, increasing to \$33.9 million by 2023.

The County is expected to incur additional costs associated with cannabis legalization generally. These costs include increased health care costs to treat acute cannabis intoxication and cannabis dependency; costs to fund cannabis prevention, intervention, and treatment programs; and costs to enforce laws against driving under the influence of cannabis. Long-term costs are unknown, and could increase should the County decide to allow cannabis retail in unincorporated areas.

OPTION 2: ALLOW AND REGULATE A LIMITED NUMBER AND TYPE OF COMMERCIAL CANNABIS BUSINESSES IN UNINCORPORATED AREAS

Your Board may also decide to allow and regulate commercial cannabis but limit the types of businesses that can locate in unincorporated areas.

For example, during community engagement efforts, many residents asked the County to ensure sufficient access to cannabis to treat medical conditions. Access to medical cannabis can be achieved through a combination of cannabis stores and delivery services. Your Board could decide to allow medical cannabis activities but prohibit adult-use cannabis activities.

Another example of a more limited approach to regulating commercial cannabis includes licensing only some types of commercial cannabis activity. For example, allowing some form of cannabis retail could help the County reduce the profitability of the unlicensed stores that currently exist throughout the County by providing consumers a legal option to buy cannabis. Your Board can decide to permit cannabis delivery but preclude stores, or allow stores and delivery but preclude other types of non-retail cannabis activity.

The regulatory framework could be applied to both adult-use and medical commercial cannabis activities, or to only medical commercial cannabis activities. A more limited approach to regulating commercial cannabis would impact the cannabis tax revenues analyzed in the report included as Attachment IV.

OPTION 3: PROHIBIT COMMERCIAL CANNABIS ACTIVITY

Your Board can decide to keep the prohibition on commercial cannabis in unincorporated areas in place. The existing prohibition on commercial cannabis is codified in Title 22 of the County Code (Zoning Code). No further action by your Board is necessary to maintain this prohibition.

Prohibiting commercial cannabis would limit or eliminate potential tax revenues. Under State law, prohibiting commercial cannabis cultivation or sale would disqualify the County from receiving grants disbursed from the California Cannabis Tax Fund to local government programs addressing public health and safety associated with implementation of the Adult Use of Marijuana Act.

UNLICENSED CANNABIS BUSINESS ELIMINATION

In March 2016, your Board established the Medical Marijuana Dispensary Enforcement Team ("MMDET"), comprised of County Counsel, the District Attorney, the Department of Regional Planning, and the Sheriff, to combat illegal cannabis stores in unincorporated areas. The MMDET has been enforcing the County's ban against all unlawful dispensaries and other related cannabis businesses and activities. All reports of illegal cannabis stores are logged for follow-up. The Sheriff conducts investigations and serves warrants at suspected cannabis stores. County Counsel and the District Attorney work with property owners to evict illegal stores and, if such efforts are unsuccessful, file civil lawsuits to close the businesses. The process is time-consuming and resource-intensive but, in most cases, results in closure of the illegal store subject to investigation. However, preventing new unlicensed cannabis stores from opening continues to be a challenge.

The MMDET has previously reported on the challenges of making headway against illegal cannabis stores. On April 17, 2017, the MMDET submitted to your Board a report on Enforcement Strategies for Closure of Unlawful Medical Marijuana Dispensaries. The report estimated that approximately 75 illegal cannabis stores were operating in unincorporated areas. On November 7, 2017, County Counsel provided your Board with a verbal report indicating that 29 stores had been closed since the April 2017 report, but that 31 new stores had opened. This phenomenon has been described as "whack-a-mole," because new cannabis businesses quickly take the place of cannabis businesses that shut down.

Based on these enforcement realities, a more comprehensive approach is needed to eliminate unlicensed commercial cannabis activity. The OCM has been working closely with County Counsel, the District Attorney, the Sheriff, the Treasurer and Tax Collector, and the Directors of Public Health and Regional Planning to prepare an unlicensed

cannabis business elimination plan. The draft plan includes four strategies:

- **Strategy 1: Public Education and Outreach:** Engage in proactive outreach to educate key constituencies on how to determine whether a cannabis business is licensed, why it is important to support only licensed businesses, and how to report unlicensed cannabis businesses. This strategy includes:
 - Establishing a universal emblem placard identifying permitted cannabis stores, promoting awareness of the universal emblem as a way for consumers to distinguish between licensed and unlicensed cannabis retail stores, and educating consumers on the potential harms of purchasing cannabis from an unlicensed store. OCM has contracted a with a communications firm to develop the emblem and an associated education campaign to drive consumers away from unlicensed businesses.
 - Exploring the feasibility of posting warning signage at or near unlicensed cannabis stores to alert consumers that the business is not licensed. Such warning signage has been used by officials in the City of Compton.
 - Conducting outreach to employees of cannabis businesses to inform them of the potential risks of working for an unlicensed cannabis business, in collaboration with County departments and other local partners. The OCM and the Department of Consumer and Business Affairs have collaborated with the City of Los Angeles to educate the media about risks to employees working at illegal cannabis stores.
 - Conducting outreach to commercial and industrial property owners, chambers of commerce, and real estate industry associations to raise awareness of the potential legal and financial risks of leasing space to an unlicensed cannabis business. The OCM is compiling contact information for relevant groups for a targeted outreach campaign.
 - Conducting multilingual, culturally competent outreach to community groups to educate residents on how they can report unlicensed cannabis businesses in their neighborhoods. The OCM and MMDet members routinely present at community groups and provide this information. Members of the public can report illegal cannabis stores in unincorporated areas via phone (213-974-6453 or 211) or email (ZoningEnforcement@planning.lacounty.gov or cannabis@lacounty.gov).
 - Exploring the feasibility of adding a function to “The Works” smartphone application to facilitate the reporting of unlicensed cannabis businesses.²

² “The Works” is a smartphone application that provides a one-stop solution for County residents to report and track service requests, such as for graffiti removal, illegal dumping, unpermitted construction, and pothole repairs.

- **Strategy 2: Enhanced Direct Enforcement:** Enhance the effectiveness of direct enforcement against unlicensed businesses by strengthening existing tools and developing new tactics designed to dis-incentivize operating an unlicensed cannabis business. This strategy includes:
 - Exploring the feasibility of establishing a procedure to disconnect utility service at unlicensed cannabis businesses, particularly those with unsafe wiring or other life safety hazards, and those that are engaged in utility theft.
 - Exploring the feasibility of establishing an administrative process to allow physical locking and sealing of premises housing unlicensed cannabis businesses that would not be eligible for licensing, pursuant to Los Angeles County Code (County Code) section 7.04.380.A.
 - Amending the County Code to increase civil penalties per day for unlicensed cannabis businesses, pursuant to Business and Professions Code section 26038.
 - Exploring the feasibility of creating a multi-department inspection and enforcement team specifically for cannabis businesses, similar to the Nuisance Abatement Team.³
 - Developing criteria to prioritize new and existing enforcement cases based on the severity and urgency of the complaint.
- **Strategy 3: Legislative Advocacy:** Advocate for legislation that helps to deter the operation of unlicensed cannabis businesses and facilitates efforts to close such businesses. This strategy includes:
 - Advocating for the State to adopt and strictly enforce regulations or laws prohibiting advertising of unlicensed cannabis businesses, including on online platforms.
 - Exploring the feasibility of establishing a dedicated court department or judge to expedite processing of civil cases against unlicensed cannabis businesses.
 - Advocating for State funding and other resources to support enforcement against unlicensed cannabis businesses and consumer education efforts.

³ The Nuisance Abatement Team (NAT) program is comprised of a number of County departments, including Public Works, Regional Planning, Public Health, Sheriff, District Attorney, Fire, and Animal Care and Control. The NAT teams identify egregious code violations, cite properties where these violations have occurred, take steps to abate violations, and monitor for repeat violations. The NAT team coordinates joint inspections and investigates nuisance conditions at residential, commercial, and industrial properties.

- **Strategy 4: Strategic Partnerships:** Develop mutually beneficial partnerships between County departments and other agencies involved in cannabis regulation, including protocols to support close collaboration and an open exchange of information with trusted partners. This strategy includes:
 - Establishing a unified database of enforcement cases against unlicensed cannabis businesses in the County's unincorporated areas, to provide County departments with on-demand access to the most current information for any given case or location, and to facilitate reporting on summary-level statistics and geographic trends.
 - Exploring the feasibility of establishing a cross-referral protocol with state agencies involved in cannabis regulation and enforcement, to ensure that the relevant state agencies are automatically notified when the County initiates a new enforcement case, and vice versa.
 - Establishing a forum for cannabis regulators from the County, State, and other local jurisdictions to discuss enforcement strategies, emerging trends, identified needs, and other information on a regular basis. The OCM and MMDT members have met with State enforcement officials to discuss collaborative enforcement efforts, and the OCM is planning a convening of local city regulators to discuss enforcement, among other things.

The OCM will continue to develop the unlicensed business elimination plan and expects to provide your Board with a copy of the completed draft plan in 90 days.

Should you have any questions concerning this matter, please contact me at (213) 974-9750 or jnicchitta@dcba.lacounty.gov, or Julia Orozco at (213) 974-1151 or jorozco@ceo.lacounty.gov.

JMN:JO:DSK
MWT:rlid

Attachments

c: Executive Office, Board of Supervisors
Chief Executive Office
County Counsel
Assessor
District Attorney
Sheriff
Agricultural Commissioner/Weights and Measures
Alternate Public Defender
Consumer and Business Affairs
Fire

The Board of Supervisors

June 19, 2018

Page 12

Human Resources

Public Defender

Public Health

Public Works

Regional Planning

Sherriff Civilian Oversight Commission

Treasurer and Tax Collector

ATTACHMENT I: ANALYSIS OF REGULATORY FRAMEWORK

This Attachment I describes the Office of Cannabis Management’s (OCM) public outreach efforts regarding cannabis legalization and regulation, and provides an analysis of each regulatory framework component for regulating commercial medical and adult-use (recreational) cannabis in unincorporated areas.

I. Summary of Public Outreach Efforts

A. Advisory Working Group

The OCM convened the Los Angeles County Advisory Working Group on Cannabis Regulation (Advisory Working Group) on June 29, 2017, to prepare recommendations to guide the County’s development of a regulatory program for cannabis in unincorporated areas. Advisory Working Group members represented a diverse range of stakeholders and experts, including public health experts, drug policy experts, academics, drug prevention specialists, cannabis industry representatives, local elected officials, and community stakeholders. Each Board office recommended up to two members to represent its district.

The Advisory Working Group met eight times and discussed the following topics:

- June 29, 2017 Kickoff and orientation
- July 20, 2017 Preventing youth access and exposure to cannabis
- July 27, 2017 Public health and safety issues
- August 3, 2017 Regulations for cannabis retailers
- August 10, 2017 Regulations for cannabis cultivators, manufacturers, distributors, testing laboratories, and microbusinesses
- August 17, 2017 Taxation and economic development
- August 24, 2017 Equity
- August 31, 2017 Consideration and approval of final recommendations

The Advisory Working Group approved 64 recommendations, all of which were reached by consensus, meaning that each member present agreed to a recommendation before it was carried forward. Because of the diverse backgrounds, expertise, and priorities of working group members, the consensus process allowed for meaningful discussion, compromise, and recommendations that reflected the interests and viewpoints of every member – not simply the majority.

On October 24, 2017, the OCM published a 301-page report detailing the efforts of the Advisory Working Group and its recommendations. The report can be accessed online at <http://cannabis.lacounty.gov/wp-content/uploads/2017/10/2017-10-24-FINAL-AWG-Recommendations-Report.pdf>.

The Advisory Working Group’s recommendations are discussed in detail below and are attached in full in Attachment II: Advisory Working Group Recommendations. The OCM is continuing to analyze all of the recommendations for potential implementation prior to or during permitting.

B. Public Listening Sessions

The OCM convened listening sessions on cannabis regulation throughout the County at locations identified by each Board office. Listening sessions began on July 12, 2017, in Topanga and ended on August 31, 2017, in East Los Angeles. In total, the OCM conducted 20 community listening sessions, including a Spanish-language listening session in East Los Angeles at the request of community members. Listening sessions took place at the following locations:

- **First District:** La Puente, West Covina, Walnut Park, and three in East Los Angeles
- **Second District:** Athens/Willowbrook, West Athens/Westmont, Lennox, and Florence-Firestone
- **Third District:** Topanga Canyon and Santa Monica Mountains/Calabasas
- **Fourth District:** South Whittier, Hacienda Heights, West Whittier/Los Nietos, and Rowland Heights
- **Fifth District:** Quartz Hill, Altadena, Santa Clarita Valley/Castaic, and Claremont/La Verne/San Dimas

The purpose of the listening sessions was to obtain feedback from the community to inform the development of cannabis regulations for unincorporated areas. Listening sessions were facilitated by professional facilitators to maximize feedback received at each session. Community concerns raised during the listening sessions were recorded by notetakers. In addition, any written comments received by the OCM during a listening session or submitted by mail, email, or through a comment box on the OCM's website were collected and recorded.

On October 25, 2017, the OCM published a 449-page report documenting the results of the community listening sessions. The report is available on the OCM website at <http://cannabis.lacounty.gov/wp-content/uploads/2017/10/Public-Listening-Session-Report.pdf>.

Community feedback has been incorporated into the draft policy framework, and relevant community concerns are discussed below.

II. Analysis of Policy Framework Components

A. Framework Component No. 1: Create a new cannabis commission

1. Background

On February 7, 2017, your Board adopted a motion that, among other things, directed the CEO and the OCM to coordinate with affected County departments to prepare regulations for

commercial medical and adult-use cannabis in unincorporated areas. On November 7, 2017, your Board adopted a motion that directed the CEO, the OCM, and the Department of Public Health to work together to incorporate health equity principles into regulations for cannabis retailers. Your Board specifically identified establishing a discretionary hearing process for cannabis retailers and directed the CEO to identify an existing or new County hearing body to conduct the discretionary review.

2. Advisory Working Group recommendations and community feedback to establish a discretionary hearing process for cannabis businesses

The Advisory Working Group recommended that the County require cannabis businesses, including retailers, cultivators, and manufacturers, to obtain a discretionary entitlement after a public hearing. (See Attachment II, Recommendations No. 32, 41, 49.) Although the Advisory Working Group did not provide a recommendation about which County hearing body should conduct such a hearing and discretionary review, the Advisory Working Group did emphasize that the process should allow for community participation and take into account potential negative impacts from cannabis businesses, including negative community health consequences that could arise from the overconcentration of cannabis businesses and quality-of-life impacts.

The OCM also received numerous comments during listening sessions that cannabis businesses should be required to obtain a discretionary permit and undergo a public hearing before they were allowed to operate. In East Los Angeles, for example, the local chamber of commerce provided extensive commentary about the need to require a discretionary permit process to ensure responsible business development and community input.

Furthermore, while not all agreed that cannabis businesses should be allowed in their communities, people tended to agree that cannabis businesses should positively contribute to the physical and economic health of the communities where they locate. Listening session participants shared a desire to have input on where and what businesses locate in their community.

Finally, the OCM received comments from representatives of the Acton Town Council and the Hacienda Heights Improvement Association requesting that the County establish clear standards governing how a decision on a cannabis business application is made.

3. Creating a new cannabis commission

As of January 2018, permitted commercial cannabis businesses in California are extensively regulated under a complex scheme of state regulations. For local jurisdictions, cannabis permitting presents unique challenges. Regulators and officials considering cannabis business applications must be deeply familiar with applicable regulations, understand the commercial cannabis supply chain, and should expect to closely monitor the local cannabis industry and adjust ordinances and regulations to meet the changing market.

In addition, your Board has directed the creation of a health equity model for cannabis retail permitting. Merging principles of health equity into the cannabis permitting process represents a profound and positive change in how the County assesses impacts and mitigation in unincorporated communities.

A new, five-member cannabis commission appointed by the Board of Supervisors will be in the best position to evaluate cannabis business applications and advise the Board on changing market conditions and cannabis policies. Prior to service, cannabis commissioners should participate in a mandatory orientation regarding State and local cannabis laws, the operation of cannabis businesses, health impacts, and equity issues as they relate to cannabis regulation and commercial cannabis businesses, and other pertinent topics.

Furthermore, to provide cannabis commissioners with the necessary expert advice and counsel to carry out their duties, the following advisory (non-voting) members or their designees could be assigned to the commission:

- The Treasurer and Tax Collector;
- The County Agricultural Commissioner;
- The County Fire Chief;
- The County Health Officer;
- The Director of the Center for Health Equity; and
- The Director of Regional Planning.

4. Cannabis commission's duties

Consistent with your Board's directives, the Advisory Working Group's recommendations, and community feedback, the cannabis commission would principally serve in a quasi-judicial capacity (i.e., as a hearing body) to conduct public hearings and approve, conditionally approve, or deny cannabis permit applications. The cannabis commission would also act as an oversight and monitoring body, and will be advisory to the Board of Supervisors on issues related to cannabis. A summary of the cannabis commission's key duties is provided in Table 1, below.

The cannabis commission's decisions on cannabis permit applications would be guided by a "burden of proof" that an applicant must meet before the cannabis commission may approve a business application. The "burden of proof" will include, at a minimum, the following requirements to ensure the proposed cannabis business is compatible with the neighborhoods in which it seeks to locate and will not unduly impact health outcomes:

- Whether the proposed business is a sufficient distance from all sensitive uses (described in Framework Component No. 5, below);
- Whether the proposed business is adequately buffered from other potentially affected areas or facilities, such as nearby residences or places where children congregate;
- Whether operation of proposed business will cause blight, negatively affect community health outcomes, or create or contribute to an overconcentration of businesses known to

be detrimental to community health outcomes, such as liquor stores, tobacco stores, and similar businesses; and

- Whether the proposed business will endanger the safety of people, property, or nearby natural areas.

The “burden of proof,” including all appropriate definitions and standards, would be finalized as part of the ordinance creating the cannabis commission and permitting process, and would be presented to your Board for your consideration.

Table 1 Cannabis Commission Duties and Functions	
Quasi-Judicial	Oversight and Advisory
<ul style="list-style-type: none"> • Conduct public hearings and approve, conditionally approve, or deny an application to establish or continue operating a cannabis business. • Conduct permit renewal hearings. • Conduct permit revocation hearings. • Act as the lead County agency pursuant to the California Environmental Quality Act (CEQA) for a cannabis permit application. • Other duties as needed to carry out the commission’s quasi-judicial functions. 	<ul style="list-style-type: none"> • Conduct routine “status hearing” after a cannabis permit has been approved to check on the status of the business, and compliance with conditions and regulations. • Conduct “corrective action hearings” when a cannabis business has been cited for violating a condition of approval or has received an excessive amount of community complaints. • Direct the preparation of and review staff reports regarding the effectiveness of cannabis regulations in unincorporated areas, health equity considerations, and unlicensed cannabis business activity, among other cannabis-related issues. • Recommend cannabis-related policy or ordinance changes to the Board of Supervisors. • Other duties as needed to carry out the commission’s oversight and advisory functions.

B. Framework Component No. 2: Complete a health impact assessment to inform cannabis permitting decisions and future cannabis policy

1. Background

On November 7, 2017, your Board adopted a motion requiring that cannabis regulations for unincorporated areas include health equity models to empower a County hearing body to conditionally approve or deny an application for a cannabis business, especially if the business will cause incremental impacts to community health.

2. Advisory Working Group recommendations and community feedback on health equity

The Advisory Working Group recognized the need to address potential impacts in communities already struggling with high crime, blight, and other issues. (See Attachment II, Recommendations No. 32 and 49.)

At listening sessions, the OCM received many comments from residents who were concerned about the effects that cannabis retailers would have in their communities. Of those who expressed concerns, they tended to describe concerns about long term community health and wellbeing, such as whether cannabis retail will make existing conditions worse in neighborhoods with relatively high crime, high concentrations of alcohol outlets, and other negative health indicators, and whether commercial cannabis will increase youth consumption and the negative outcomes that are associated with recreational cannabis use by young people.

3. A health impact assessment will inform cannabis permitting decisions and future cannabis policy

Consistent with your Board's directive on November 7, 2017, and the concerns identified by the Advisory Working Group and community members at public listening sessions, the Department of Public Health, in coordination with the OCM, has started work on a health impact assessment on the health equity impacts of permitting cannabis businesses in unincorporated areas.

A health impact assessment is a systematic process for assessing the potential impacts of pending policy, program or project decision outside of the traditional health sector on the health of populations and the distribution of those effects within populations. Health impact assessments inform decision-makers by providing recommendations on ways to augment the potential health benefits and/or mitigate the potential harms of proposed programs, projects or policies using a broad conception of health that includes both health outcomes (e.g., diseases, disabilities, conditions) and the social determinants of health (e.g., housing, income, social connections).

Pursuant to Framework Component No. 2, the Department of Public Health would coordinate with the OCM to complete the health impact assessment to provide recommendations for cannabis business siting decisions and future cannabis policy in unincorporated areas. The health impact assessment is expected to:

- Provide information about health-related conditions and outcomes in unincorporated communities where cannabis stores or other businesses might locate, including views and concerns expressed by a range of stakeholders;
- Allow the cannabis commission to consider whether a proposed cannabis business or regulation will impact health equity, and provide recommendations for mitigating negative and strengthening positive impacts;
- Establish baseline conditions, to allow for ongoing monitoring of community health

information as cannabis permitting is implemented; and

- Offer multipronged recommendations for incorporating health equity considerations into cannabis commission operations and potential changes to the County's cannabis policies in unincorporated areas for the benefit of public health.

The health impact assessment is expected to be completed in February 2019, with action-items and recommendations identifiable as early as December 2018.

4. Monitoring

Your Board's November 7, 2017, motion emphasized the need to monitor the effects of commercial cannabis licensure in unincorporated areas. The health impact assessment will establish a baseline for relevant health conditions in unincorporated areas. Changes to health outcomes will be measured against this baseline over time to understand the effects that licensure is having on unincorporated areas. The OCM would work with the Department of Public Health to identify data points and establish a data collection and monitoring program to track necessary community health information.

5. Health equity grant program

In addition, the Department of Public Health, in collaboration with CEO and the OCM, would report back to your Board once the health impact assessment is finalized with recommendations to establish a health equity grant program to support high-needs areas identified in the health impact assessment, consistent with your Board's directives on November 7, 2017.

C. Framework Component No. 3: Cannabis permit types

1. Background

On February 7, 2017, your Board directed the CEO to coordinate with affected County departments to prepare ordinances to "allow, license, and appropriately regulate and enforce the cultivation, transportation, distribution, processing, manufacturing, testing, retail sale, and delivery of medical and commercial (recreational) cannabis in unincorporated County areas." To implement your Board's directive, the OCM has analyzed applicable State law and regulations and worked with other County departments to identify and define the appropriate local permits necessary to establish a cannabis business in unincorporated areas.

2. Advisory Working Group recommendations and community feedback on cannabis permit types

The Advisory Working Group generally recommended that all types of commercial cannabis activity be allowed in unincorporated areas. Specific recommendations encouraged the County to offer microbusiness permits and small-scale cultivator permits to encourage local ownership,

small businesses, and urban agriculture opportunities. (See Attachment II, Recommendations No. 42, 43, 47.)

Community members at listening sessions offered varying comments about the types of commercial cannabis activity that should be allowed in unincorporated County. As mentioned above, community members were primarily concerned about cannabis stores. Some community members also raised concerns about potential explosion dangers associated with some cannabis manufacturers' use of volatile solvents, such as butane, to extract concentrated cannabis from cannabis plant material. Finally, some individuals encouraged the County to issue microbusiness and other small-scale permits to encourage local ownership and small businesses.

In addition, the Advisory Working Group recommended the Board of Supervisors reevaluate its February 7, 2017 directive precluding outdoor commercial cannabis cultivation. (See Attachment II, Recommendation No. 43.) Many residents at listening sessions also stated the County should allow outdoor commercial cultivation in agricultural areas. Other residents were concerned about outdoor commercial cultivation, especially near sensitive environmental areas and in mountain areas where runoff and pesticides could damage the environment.

3. Cannabis permit types for unincorporated areas

Pursuant to your Board's direction on February 7, 2017, the draft regulatory framework would establish permit types for all commercial cannabis activity except outdoor cultivation. These permit types are identified in Table 2, below. A business seeking to engage in more than one type of commercial cannabis activity would be required to obtain all appropriate permits that correspond to the proposed activities.

As noted above, some community members raised concerns about potential explosions at cannabis manufacturing utilizing volatile solvents, such as butane. While explosions resulting from improper butane extraction occur regularly throughout the County, these explosions have been associated with amateur "DIY" extractions in places like garages, homes, motels, and recreational vehicles, or were related to equipment not inspected for compliance with building or fire code requirements. According to the County Fire Department, cannabis manufacturing processes using well-regulated and inspected extraction equipment that comply with applicable Building and Fire Code provisions pose no greater explosion danger than other common food manufacturing processes that use volatile solvents, such as essential oil extraction from herbs and other plants. Nevertheless, the draft burden of proof identified in Framework Component No. 1, above, would require the cannabis commission to take into account the safety of nearby residences and natural areas, among other things.

The OCM also received many public comments to create small-scale permits to encourage small businesses and local ownership. The permit types identified below are based on the type of cannabis activity, not the scale of activity, and do not limit small business or local ownership. The OCM is continuing to analyze Advisory Working Group recommendations regarding incentivizing local ownership and small businesses, along with other potential economic development that cannabis permitting could create, and will consider whether to include applicable incentives or

priority permitting strategies into its permit application processes if the Board of Supervisors adopts the regulatory framework.

Table 2 Cannabis Permit Types		
Activity	Permit Types	Description
Cultivation	Cultivation–Indoor	Authorizes the cultivation of cannabis in a fully enclosed facility that uses only artificial light.
Manufacturing	Manufacturer–General	Authorizes extractions using volatile or nonvolatile solvents and mechanical means, infusion operations, and the packaging and labeling of cannabis products.
	Manufacturer–Processor	Authorizes the packaging, repackaging, labeling, and relabeling of cannabis products only.
Distribution	Distributor–General	Authorizes the transportation of cannabis and cannabis products between permitted cannabis businesses, storage of cannabis and cannabis products, packaging and labeling of cannabis, and quality control practices, including arranging for the sampling and testing of cannabis and cannabis products by a permitted cannabis testing laboratory.
	Distributor–Transporter	Authorizes the transportation of cannabis products between permitted cannabis businesses, except that Distribution-Transporter permittees may not transport cannabis products to retailers other than immature plants and seeds from a cannabis nursery licensed by the State.
Retail	Retail–Store	Authorizes the sale of cannabis and cannabis products to consumers at a retail store.
	Retail–Delivery	Authorizes the delivery of cannabis and cannabis products to consumers only. Permittees must maintain a physical location from which all deliveries will originate, which may be in conjunction with a retail store or may be operated independently as a delivery-only retailer.
Laboratory Testing	Laboratory	Authorizes the testing of cannabis and cannabis products for quality and potency, as well as the sampling of cannabis and cannabis products at a distributor’s premises and the transportation of the samples to the testing facility.

* NOTE: State law establishes a “microbusiness” license type, which authorizes a minimum of three of the following activities on the same premises: (1) cultivation of less than 10,000 square feet of cannabis; (2) manufacturing using nonvolatile or no solvents; (3) distribution; and (4) retail. A cannabis microbusiness could operate in unincorporated areas, provided it obtained the appropriate permit for each of its cannabis activities.

D. Framework Component No. 4: Cannabis permitting phase-in

1. Background

On November 7, 2017, your Board directed, among other things, that the CEO collaborate with the Director of the Public Health and County Counsel to develop a “[s]trategic phased-in licensing scheme for cannabis businesses that will balance the need for a precautionary approach to licensing with the need to reduce illicit and unregulated cannabis products and businesses.” Your Board also directed that the phased-in licensing scheme should incorporate “appropriate monitoring and assessment of overall community impacts” and “the efficacy of the County’s cannabis regulations[.]”

2. Advisory Working Group recommendations and community feedback on phasing-in cannabis permitting

The Advisory Working Group did not recommend phasing in cannabis permitting. However, many community members, in particular at listening sessions in East Los Angeles, stated the County should not permit cannabis businesses until all illegal cannabis businesses have been closed.

A strategic phase-in strikes a balance between the Advisory Working Group recommendations and community concerns. Through a strategic phase-in, the County can allow a conservative number of cannabis businesses and monitor the resulting impacts, including any reductions in illegal activity.

3. Phase-in for cannabis stores and delivery services

For at least the past several years, unlicensed cannabis stores have been operating in unincorporated areas and in cities, despite laws prohibiting such businesses. The total number of unlicensed stores operating in unincorporated areas is unknown and fluctuates. In April 2017, County Counsel provided your Board with a report identifying 75 unlicensed stores. On November 7, 2017, County Counsel confirmed in a verbal presentation to your Board that it was aware of 77 unlicensed stores in unincorporated areas. County Counsel reported that, while 29 unlicensed stores had been closed between April and November 2017, 31 new unlicensed stores had opened.

Because cannabis stores have been identified as having the greatest street-level and community impacts, the regulatory framework would allow a maximum 25 cannabis stores in the first two years of permitting, roughly one-third of the existing number of unlicensed stores, with no more than five store permits in any one supervisorial district. The number of cannabis store permits will be further limited by allowing a maximum of two cannabis store permits in any one unincorporated community to promote equity in the distribution of cannabis stores.

In addition to unlicensed cannabis stores, a review of cannabis business listings such as those on the website Weedmaps.com shows that unlicensed cannabis delivery services proliferate across Los Angeles County. Delivery services can be operated in connection with a cannabis store or separately as a delivery-only businesses. State law requires all delivery businesses to

maintain a physical location out of which all deliveries originate. The regulatory framework would allow a maximum 25 retail delivery permits in the first two years of permitting, with a maximum of five such permits per supervisorial district. Cannabis delivery services are expected to pose fewer community impacts than permitted cannabis stores because delivery services do not sell to customers onsite, are frequently located in unmarked facilities in industrial or heavy commercial areas, and tend not to attract nuisance activities such as loitering, smoking, and other activity. Many analysts also believe that consumers will increasingly prefer cannabis delivery over shopping at cannabis stores. Because of this, prohibiting cannabis delivery services may incentivize the continued operation of illegal delivery services.

4. Phase-in for non-retail permits

The OCM has been unable obtain accurate estimates of the number of unlicensed non-retail cannabis businesses operating in unincorporated areas.

In 2016, the California Department of Food and Agriculture issued the results of a survey conducted as part of its environmental review pursuant to the California Environmental Quality Act. The survey shows that over 1,400 survey respondents were interested in opening a cultivation business in Los Angeles County as a whole; over 270 were interested in opening a manufacturing business; 300 were interested in opening a distribution business; and over 80 were interested in opening a testing laboratory.

These statistics, while not determinative of how many applications the County would receive, indicate that interest in establishing non-retail cannabis businesses is substantial.

Because it is difficult to predict the total number of non-retail businesses that would locate in unincorporated areas and the collective impacts that could occur from these businesses, a relatively conservative approach to non-retail permitting would allow a maximum 10 cultivator permits, 10 manufacturer permits, 10 distributor permits, and 10 testing laboratory permits.

It is important to note that a business can be “vertically integrated” under State law and regulation, meaning a business can obtain multiple license types for one location (other than a testing laboratory license, which must remain separate). For this reason, the number of total businesses operating in unincorporated areas may be less than the total number of available permits, should a single business obtain two or more permit types (e.g., a business could obtain permits to cultivate, distribute, and manufacture at the same site). These permits will not be allocated by supervisorial district to allow “vertical integration” to take place during the initial permitting phase. Once development patterns for non-retail businesses become apparent after permitting begins, geographic distribution and further permit limits can be developed and provided to your Board for your consideration.

5. Monitoring after initial permitting phase

The OCM would closely monitor the demand for a cannabis business permit in unincorporated areas after permitting begins, as well as the unlicensed cannabis market, health equity impacts

pursuant to the health impact assessment described above, and other key indicators relevant to the number and types of cannabis permits the County offers.

After two years of permitting, the OCM, in collaboration with the Department of Public Health and other relevant departments, would provide your Board with an update on the state of cannabis licensing and regulation in unincorporated areas, with a focus on compliance levels and health equity impacts, and may recommend changes in the number and distribution of cannabis permits. However, the number of permits allowed in the initial phase-in would not increase without a decision from the Board of Supervisors.

E. Framework Component No. 5: Zoning and buffers from sensitive uses

1. Background

On February 7, 2017, your Board directed the Director of Regional Planning to identify appropriate zones for cannabis businesses in unincorporated County areas. Your Board specified that cannabis retail and testing should be restricted to heavy commercial and manufacturing zones, and that all other cannabis uses should be restricted to manufacturing zones.

Under State law, a cannabis business must be located 600 feet from schools (K-12), licensed day cares (including preschools), and “youth centers.” These distances are default distances only, and State law allows cities and counties to increase or eliminate these distances. Cities and counties are also allowed under State law to identify additional sensitive uses and set buffers between those uses and cannabis businesses.

2. Advisory Working Group recommendations and community feedback on zoning for cannabis businesses

The Advisory Working Group did not offer a recommendation regarding applicable zoning, but indicated that cannabis retail would be appropriate in commercial and manufacturing zones if allowed through a discretionary hearing process. (See Attachment II, Recommendation No. 32.)

Public comments received at listening sessions reflected conflicting views on where cannabis businesses should locate. With respect to cannabis stores, for example, many community members stated that cannabis stores should be treated like liquor stores, which are allowed in commercial zones. Other community members were concerned about having ready access to a cannabis store, especially those who use cannabis for medical reasons. On the other hand, many community members stated that cannabis stores should be relegated to industrial areas, far away from homes and commercial corridors. These commenters tended to live in areas heavily impacted by unlicensed dispensaries, which tend to cluster in commercial areas.

With respect to non-retail cannabis businesses, most commenters agreed that these businesses should be in industrial areas, although, as noted above, many also commented that cannabis cultivation and other commercial cannabis activity should be allowed in agricultural zones.

3. Zoning for cannabis businesses in unincorporated areas

The following zoning scheme addresses the issues noted above and will ensure that cannabis businesses are compatible with the type and scale of surrounding development.

As noted above, commenters in communities hardest hit by unlicensed commercial cannabis activity raised concerns about cannabis stores locating in commercial areas. Allowing permitted retailers in only the most intense commercial zones balances community concerns while providing cannabis consumers a legal avenue to purchase cannabis and make it easier for medical cannabis patients to access a permitted store.

Moreover, unlike unlicensed operators, stores granted a permit by the cannabis commission would be required to comply with strict regulations that ensure the store’s compatibility with surrounding businesses. Permitted stores would also be unable under applicable County rules to concentrate in any one community.

Table 3 Zoning		
Zone	Retail–Store Retail–Delivery Tester	Cultivation–Indoor Manufacturing–General Manufacturing–Processor Distribution–General Distribution–Transporter
C-3 (General Commercial)	OK	Not allowed
C-M (Commercial Manufacturing)	OK	Not allowed
M-1 (Light Manufacturing)	OK	OK
M-1.5 (Restricted Heavy Manufacturing)	OK	OK
M-2 (Heavy Manufacturing)	OK	OK

4. No commercial cannabis activity in agricultural or residential zones

Consistent with your Board’s direction on February 7, 2017, commercial cannabis activity would remain prohibited in agriculturally and residentially zoned areas.

5. Advisory Working Group recommendations and community feedback regarding buffers

The question of buffers was perhaps the most hotly debated issue at the Advisory Working Group and at listening sessions in all areas of the County. During listening sessions, concerned community members tended to worry that cannabis stores would have a blighting effect on surrounding areas, causing loitering and other quality of life issues, increased crime, and providing a place for neighborhood youth to buy cannabis. Community members identified a wide range of sensitive uses and suggested buffering distances of up to several miles. Suggested sensitive uses included schools, day cares, parks, libraries, places of worship, senior housing, and homes.

Advisory Working Group members, many of whom attended multiple listening sessions and heard these community concerns, extensively discussed appropriate buffers for cannabis stores. Members strongly agreed that cannabis stores should be located away from places where youth congregate, such as schools. However, some members were also concerned that very large buffer distances and an expansive list of sensitive uses could result in a *de facto* ban on cannabis businesses.

Advisory Working Group members ultimately reached consensus on increasing State buffers from schools, preserving buffers from day cares and youth centers, and considering new buffers from public parks, public libraries, and youth drug and alcohol treatment centers, among other things. (See Attachment II, Recommendation No. 40.) The Advisory Working Group also recommended that a variance procedure be available to allow reduced buffers in exceptional cases, and asked that the County publish a map showing the development potential for cannabis businesses prior to adopting any buffer distances. (See Attachment II, Recommendation No. 40.)

Regarding non-retail cannabis uses, some community members stated that all cannabis businesses should be located away from schools. Others were concerned about potential explosions at cannabis manufacturing facilities and asked that these businesses be located far away from homes.

The Advisory Working Group did not offer a recommendation regarding buffering non-retail cannabis businesses from sensitive uses.

6. Proposed buffers

Establishing appropriate buffers for cannabis businesses is challenging. Acknowledging many community members' desires for very large buffer areas, the Department of Regional Planning studied large buffer distances from uses such as schools, parks, and libraries. Regional Planning also considered buffers from very common uses such as residential areas and places of worship.

The analysis revealed that large buffers and buffers from very common uses either resulted in a *de facto* ban on cannabis businesses, or concentrated uses in industrial and industrial-adjacent areas, which tend to be lower income neighborhoods in the First and Second Supervisorial Districts, and in the Antelope Valley in the Fifth Supervisorial District, where properties tend to be relatively large and spread apart.

In the end, the buffer recommendations of the Advisory Working Group served as a useful starting point that balanced community concerns while avoiding unintended consequences of concentrating impacts in lower income neighborhoods and the Antelope Valley. For this reason, the Department of Regional Planning, jointly with the OCM, concurs with the buffer recommendations set forth in the Advisory Working Group's Recommendation No. 40, with several modifications to incorporate residents' concerns and other important policies:

- Buffers from drug and alcohol treatment centers should be included as a matter of public policy, so as not to unduly interfere with the treatment of individuals living in those facilities. The Advisory Working Group recommended that the County

evaluate buffering drug and alcohol treatment centers that served youth.

- Buffers between cannabis stores are necessary to prevent an overconcentration of stores in any one area.
- Buffers between cannabis stores and offsite alcohol sales, such as liquor stores, will help prevent a combined concentration of cannabis and alcohol retailers in the same area.
- Because “youth centers” are vaguely defined under State law and difficult to identify in practice,¹ public parks and libraries, along with schools, serve as appropriate proxies for “youth centers” and ensure that cannabis stores do not locate too close to places where youth commonly congregate.

For cannabis delivery retailers and non-retail businesses, buffers from schools, day cares, and public parks and libraries are considered sufficient because delivery retailers and non-retail businesses do not serve customers onsite, are often unmarked or have limited signage, and tend to have fewer community impacts than cannabis stores.

These buffers are described in Table 4, below.

Sensitive Use	Retail–Store	Retail–Delivery Cultivator–Indoor Distributor–General Distributor–Transporter Manufacturer–General Manufacturer–Processor Tester
School	1,000 ft.	1,000 ft.
Day Care	600 ft.	600 ft.
Public Library	600 ft.	600 ft.
Public Park	600 ft.	600 ft.
Alcohol/Drug Rehab	600 ft.	None
Other Cannabis Stores	600 ft.	None
Alcohol Sales (Off-site)	300 ft.	None

7. The Zoning Code allows variances to reduce buffer distances

As explained above, the Advisory Working Group recommended that prospective cannabis business operators be allowed to apply for a variance to reduce or eliminate the recommended

¹ Health and Safety Code section 11353.1(e)(2) defines a “youth center” as “any public or private facility that is primarily used to host recreational or social activities for minors, including, but not limited to, private youth membership organizations or clubs, social service teenage club facilities, video arcades, or similar amusement park facilities.”

buffers. (See Attachment II, Recommendation No. 40.) The Zoning Code already contains a variance procedure based on State law that expressly allows applicants for a variance to reduce or eliminate buffer distances. (County Code section 22.56.260.J.)

The burden of proof for a variance is substantial. The applicant must demonstrate that because of “special circumstances or exceptional characteristics applicable to the property, the strict application of the [zoning] code deprives such property of privileges enjoyed by other property in the vicinity and under identical zoning classification.” (County Code section 22.56.290.A.) A variance must be granted by the Regional Planning Commission following a public hearing, and must be based on geographic factors specific to the property at issue, not the desires of the property owner or the community. A decision by the Regional Planning Commission to grant a variance is appealable to your Board.

8. Maps showing commercial cannabis development potential

Consistent with the Advisory Working Group’s Recommendation No. 40, Regional Planning has prepared maps depicting where cannabis businesses can locate based on draft zoning and buffers. These maps are attached as Attachment III to this letter and available online at <http://planning.lacounty.gov/cannabis/maps>. Also consistent with the Advisory Working Group’s recommendation, the online versions of these maps show underlying demographic data.

9. Regional Planning Commission consideration

If the Board of Supervisors approves the draft zoning and buffers, the Department of Regional Planning would work with the OCM and County Counsel to amend the Zoning Code accordingly. The Zoning Code amendment is subject to public hearing and review by the Regional Planning Commission, which will provide your Board with a recommendation to adopt, modify, or decline to adopt the amendment. It is expected that this process would be completed within 180 days.

F. Framework Component No. 6: Establish a program to reduce barriers to ownership and employment in the cannabis industry and conduct a workshop; and Framework Component No. 7: Cannabis equity review panel

1. Background

For many, cannabis legalization is a matter of social justice and is necessary to end historical and present day disparate impacts to poor communities and communities of color from the “war on drugs.” Proposition 64, approved by California voters in November 2016, recognized these principles of social justice by legalizing the use, transportation, and possession of cannabis by adults age 21 and over (within certain quantity limits), and by providing those convicted of cannabis offenses that are now either legal or carry lesser penalties the opportunity to have their sentences reduced or their conviction records destroyed. Proposition 64 also set aside up to \$50 million annually in cannabis tax revenue for program grants “for communities disproportionately affected by past federal and state drug policies.” (Cal. Rev. & Tax. Code section 34019(d).)

However, concerns about the disparate enforcement of drug laws persist post-cannabis legalization. For example, adult-use (recreational) cannabis became legal in Colorado in 2014. Since then, the overall number of cannabis arrests has plummeted by over 80 percent.² Despite falling arrest rates, data from 2015 show that people of color are still approximately 2.5 times more likely than whites to be arrested for a cannabis offense.³

Additionally, many are concerned that poor and minority communities will be left behind by the cannabis “green rush,” as individuals in those communities generally have less access to capital and other resources.⁴

2. Advisory Working Group recommendations and community feedback regarding equity in ownership and employment

The Advisory Working Group flagged concerns regarding barriers to owning a cannabis business and employment in the cannabis industry, and offered two detailed recommendations on addressing such barriers. The Advisory Working Group recommended establishing a cannabis ownership and equity program that would reduce barriers to entry into the cannabis market for those living in communities hardest hit by the “war on drugs.” (See Attachment II, Recommendation No. 62.) The Advisory Working Group also recommended creating an equity review panel to monitor and advise your Board on equity issues across all aspects of cannabis legalization. (See Attachment II, Recommendation No. 64.)

Equity issues were also raised across all listening sessions countywide. Residents highlighted the need for equitable cannabis business ownership opportunities, especially at listening sessions in West Athens/Westmont, East Los Angeles, South Whittier, and West Whittier/Los Nietos. Suggested strategies included providing start-up capital, education resources, job training, and technical support to cannabis permit applicants.

Many community members expressed the additional concern that cannabis legalization not further the disparate impacts caused by the “war on drugs,” but become an opportunity to reduce disparities. In communities most affected, participants asked that cannabis tax revenue be used to support reentry programs for the formerly incarcerated, expungement clinics, and to assist the formerly incarcerated with access to student loans, welfare, and other social services.

² Drug Policy Alliance, “So Far, So Good: What We Know About Cannabis Legalization in CO, WA, AK, OR, and D.C.” (2016), accessed at http://www.drugpolicy.org/sites/default/files/Cannabis_Legalization_Status_Report_101316.pdf.

³ Keith Humphreys, “Pot legalization hasn’t done anything to shrink the racial gap in drug arrests” Washington Post (March 21, 2016), accessed at https://www.washingtonpost.com/news/wonk/wp/2016/03/21/potlegalization-hasnt-done-anything-to-shrink-the-racial-gap-in-drug-arrests/?utm_term=.eb87410994b9.

⁴ Amanda Chicago Lewis, “How black people are being shut out of America’s weed boom,” BuzzFeed News (March 16, 2016), accessed at https://www.buzzfeed.com/amandachicagolewis/americas-whiteonly-weed-boom?utm_term=.btXeRPVYX#.pvKq8Pye5.

3. Establish a program to reduce barriers to ownership and employment in the cannabis industry and conduct a workshop

Based on Advisory Working Group and community feedback, the OCM would hold a public workshop to define who should qualify for benefits under such a cannabis equity program and what types of benefits should be offered. Because equitable opportunities for cannabis ownership and employment will not solve all issues currently affecting areas most impacted by the “war on drugs,” the public workshop should explore ways that the cannabis equity program can be integrated into a wholistic services approach. For example, job-training can be expanded beyond cannabis industry jobs to business support services, such as marketing, accounting, and other businesses that can serve the cannabis industry and other community businesses.

If the Board of Supervisors approves Framework Component No. 6, the OCM would work closely with Board offices to develop the workshop format and discussion topics.

4. Cannabis equity review panel

Cannabis legalization and commercialization represents a sea change in California drug policy, and offers the County the unique opportunity to monitor, track, and adjust its own rules and policies to advance social justice and equity.

For these reasons, and based on the Advisory Working Group’s recommendations, Framework Component No. 7 would establish a 15-member, Board-appointed cannabis equity review panel, which will be advisory to the Board of Supervisors and the cannabis commission, and will periodically issue public reports evaluating the effectiveness of the County’s “cannabis ownership and employment equity program,” the impacts of cannabis legalization on health equity, any other equity issues associated with the County’s cannabis-related programs, and the civil and criminal enforcement of cannabis laws. The equity review panel should survey and engage communities to better understand how the legal cannabis industry impacts them and make policy recommendations to correct any inequitable conditions identified by community members.

Members of the equity review panel should have demonstrated knowledge and experience in an area which has a significant bearing upon cannabis regulation or legalization, equity issues, drug policy, or drug prevention or treatment.

G. Framework Component No. 8: Updates to Title 7 (Business Licensing)

Title 7 of the County Code (Business Licenses) contains existing provisions pertaining to the licensing and operation of medical cannabis dispensaries in unincorporated areas, but contains no provisions for adult-use cannabis retail businesses or for non-retail cannabis businesses.

III. Taxing Commercial Cannabis

A. Background

Proposition 64 (Adult Use of Marijuana Act) authorizes counties to levy a gross receipts tax on commercial cannabis activity, subject to voter approval. On February 7, 2017, your Board directed the CEO to analyze and prepare an appropriate ballot measure to tax commercial cannabis.

B. Advisory Working Group recommendations and community feedback on taxing commercial cannabis

The Advisory Working Group considered cannabis tax rates for unincorporated areas and recommended that the County: (1) implement a low initial tax rate that is differentiated by business activity; (2) increase its low initial tax rate over time as the regulated cannabis market establishes to a rate comparable with surrounding jurisdictions, such as the City of Los Angeles; and (3) provide flexibility to increase and decrease gross receipts taxes on commercial cannabis activity in response to changing market conditions, consumption patterns for young adults, and legislation or regulation at the federal and state levels. (Attachment II, Recommendation No. 52.)

During OCM's public listening sessions on Cannabis, OCM received substantial input from communities on taxation and revenue as it relates to cannabis. Communities were concerned about how tax rates will impact the cannabis industry. Many believed taxes should not be so high as to thwart the development of a licensed and regulated cannabis industry. Rather, tax policy should seek to "normalize the legal market and encourage legal use." Many suggested starting with a relatively low tax rate to facilitate the transition to a legal market and increasing taxes over time as the regulated market stabilizes. Some were also concerned that tax rates could become a barrier to entry for small business owners, hinder profitability, and result in an inequitable ownership pattern, with big businesses and corporations dominating the local industry at the expense of small, locally owned businesses.

Communities were in nearly unanimous agreement on taxing medical cannabis differently from recreational cannabis, with many suggesting that medical cannabis should not be taxed.

There was also near unanimity from communities desiring tax revenue from local businesses to remain in the communities where businesses are located for reinvestment. Community members also wanted input on how revenue would be used. Participants called for transparency in how tax funds are allocated, in terms of who is making the decision, how much is collected and how it will be used.

C. Ballot measure and ordinance to tax commercial cannabis in the County

On October 17, 2016, the CEO's Office contracted with the Marijuana Policy Group (MPG), an economic consultant with experience estimating tax revenues in the State of Colorado and elsewhere, to conduct five-year projections of the size of the regulated market and potential tax

revenues to Los Angeles County. MPG prepared an initial report estimating potential revenues to the County from imposing a gross receipts tax on commercial cannabis activity. The CEO provided the initial report to your Board on November 15, 2016.

MPG revised the report in May 2018 to reflect current laws, tax rates adopted by voters in Los Angeles County cities, and the number and types of cannabis businesses that would be permitted pursuant to the policy framework presented above. The revised report is included as Attachment IV to this letter.

Consistent with the Advisory Working Group’s recommendation, the revised report recommends that the County implement a gross receipts tax for commercial cannabis activity that is comparable to tax rates in the City of Los Angeles to avoid the clustering of businesses along jurisdictional boundaries. The report analyzed a rate for unincorporated area cannabis businesses that is equal to existing rates in the City of Los Angeles.

Because Proposition 64 allows counties to tax commercial cannabis countywide, the revised report also analyzed a smaller, incremental countywide tax rate. Revenue from this countywide tax can be used to fund countywide activities such as drug prevention and intervention efforts, reimburse the County for increased countywide costs associated with commercial cannabis sales, such as health care costs, and shared with local health departments.

Assuming the County allows the number and type of cannabis permits described above, tax revenues are estimated as described in Table 7, below.

Table 7 Cannabis Tax Revenue Projections			
	Tax Rate	2019 (\$ Million)	2023 (\$ Million)
<i>Unincorporated Areas</i>			
Adult-Use Retail	10%	7.75	17.68
Medical Retail	5%	2.11	1.71
Cultivation	2%	0.11	0.13
Manufacturing	2%	0.04	0.05
Distribution	2%	0.09	0.10
Total – Unincorporated Areas		\$10.10	\$19.67
<i>Countywide</i>			
Adult-Use Retail	0.5%	4.71	10.76
Medical Retail	0.25%	1.32	1.07
Cultivation	0.5%	0.78	0.88
Manufacturing	0.5%	0.51	0.58
Distribution	0.5%	0.83	0.94
Total – Countywide		\$8.15	\$14.23
Total – Unincorporated + Countywide		\$18.25	\$33.90

ATTACHMENT II: ADVISORY WORKING GROUP RECOMMENDATIONS

	Topic	Subtopic	Recommendation
1.	Youth access and exposure	Education	The County should produce and widely distribute science-based, non-judgmental information on the risks and potential harms of cannabis use by children and youth. The information should be distributed using methods that are effective in reaching children and youth, as well as their parents, caregivers, and adult family members. The information should be conveyed in an objective, non-judgmental manner that is easily understood by persons with limited literacy and available in all key languages. Cannabis retail businesses should be required to post this information in a highly visible place.
2.	Youth access and exposure	Education	The County should provide science-based, non-judgmental education and prevention resources for youth, and work with educators and youth service providers on effective ways to inform youth about the harms of underage recreational cannabis use, including but not limited to peer-to-peer and early intervention strategies for drug abuse prevention.
3.	Youth access and exposure	Education	The County should provide science-based, non-judgmental education and prevention resources to ensure that local regulations allow for safe, responsible medical cannabis use by persons under the age of 21 where recommended by a doctor, and provide education to parents and caregivers about safe storage and responsible use practices to prevent underage nonmedical access to cannabis.
4.	Youth access and exposure	Education	The County should prioritize the use of cannabis tax revenue to provide schools and youth service providers with accurate, science-based, non-judgmental and comprehensive education, prevention strategies and early risk-reduction interventions that aim to prevent underage recreational use; other supportive programming, such as after-school and out-of-school activities will also be prioritized.
5.	Youth access and exposure	Education	The County should work with schools, school districts, and youth centers to post signage at facility entrances stating that the possession of cannabis is prohibited. Signage should be highly visible and in multiple languages.
6.	Youth access and exposure	Packaging and labeling	The County should ensure sufficient resources and funding to enforce state laws requiring child-resistant exit packaging for all products sold at retail or delivered to consumers.
7.	Youth access and exposure	Age verification	The County should conduct regular unannounced compliance checks, no less than twice yearly, to ensure cannabis retailers comply with age-restriction laws, and should establish progressive penalties, up to and including license revocation, for cannabis retailers, including delivery services that do not comply with age-restriction laws.

Attachment II: Advisory Working Group Recommendations

	Topic	Subtopic	Recommendation
8.	Youth access and exposure	Age verification	The County should require all retail cannabis sales personnel to complete documented training on age verification requirements, accepted age-verification practices, including but not limited to electronic age verification practices and other techniques to prevent underage youth from entering or loitering in the vicinity of retail outlets. Cannabis retailers should be held accountable for ensuring that all retail sales employees complete training before conducting sales. Progressive consequences (penalties including fines and suspensions to operate) should be implemented and should include license revocation, where appropriate. The County should conduct regular compliance checks with cannabis retailers.
9.	Youth access and exposure	Fines and penalties	The County should evaluate the feasibility of adding cannabis to a social host ordinance that holds individuals responsible for knowingly providing a place on property they control where nonmedical underage cannabis use takes place, regardless of who provides the cannabis products.
10.	Youth access and exposure	Advertising and marketing	The County should advocate for changes to state law to prohibit cannabis advertising in broadcast, cable, radio, print, and digital communications where less than 85 percent of the audience is reasonably expected to be 21 years of age or older, as determined by reliable, up-to-date audience composition data, consistent with rules applicable to tobacco advertising.
11.	Public health and safety	Banking	The County should investigate the feasibility of creating a public bank to serve the cannabis industry.
12.	Public health and safety	Banking	The County should explore the feasibility of using third-party services to handle financial transactions, such as tax payments, between cannabis businesses and the County to reduce risks involved with cash only payment methods, and should implement adequate security measures and business capabilities at County offices, including exploring adding new payment offices, to handle the anticipated increase in cash payments by cannabis businesses.
13.	Public health and safety	Crime	In connection with any new license or renewal application, the County should require each cannabis business to submit a security plan that implements industry best practices to deter crime and facilitate response and intervention by law enforcement.
14.	Public health and safety	Crime	The County should ensure law enforcement is properly trained to prevent racial, ethnic, mental health and age-related profiling when interacting with community residents on cannabis-related issues.
15.	Public health and safety	Crime	County law enforcement should partner with cannabis businesses to understand the businesses' unique security concerns, including assigning a law enforcement liaison to interface directly with each cannabis business.
16.	Public health and safety	Driving under the influence of drugs	The County should advocate for state legislation that clarifies cannabis open container laws to ensure both residents and law enforcement understand what is and is not legal.

Attachment II: Advisory Working Group Recommendations

	Topic	Subtopic	Recommendation
17.	Public health and safety	Driving under the influence of drugs	The County should set aside funds for the Department of Public Health to assess the efficacy of laboratory equipment to detect the presence of active THC in the blood and its correlation to impairment.
18.	Public health and safety	Driving under the influence of drugs	The County should investigate incorporating evidence-based interventions administered by appropriately trained public health professionals into alcohol and drug DUI programs, such as Screening, Brief Intervention, and Referral to Treatment (SBIRT) in a non-law enforcement setting.
19.	Public health and safety	Over-consumption and edibles	The County should explore whether to supplement state required labels for recreational edible cannabis products sold in County cannabis stores to provide information to consumers about how to avoid overconsumption and include warnings about cannabis use by women who are pregnant and breastfeeding, driving under the influence of cannabis, recreational youth cannabis use or other potential health impacts.
20.	Public health and safety	Education	The County should explore the feasibility of developing and testing a universal symbol to be placed on every cannabis and cannabis product package label sold in County cannabis stores to easily identify that a product contains cannabis.
21.	Public health and safety	Education	The County should require cannabis retailers to post multi-lingual signage alerting consumers that the possession and use of cannabis could impact a person's immigration status under federal law and could violate the terms of a person's parole or probation.
22.	Public health and safety	Education	The County should implement a wide-ranging, multilingual and culturally competent multimedia campaign to educate the public, including tourists, about state and local cannabis laws and responsible cannabis use. The County should immediately pursue available state funding to support the education campaign.
23.	Public health and safety	Secondhand smoke	The County should work with state and local housing authorities to implement policies that minimize exposure to secondhand cannabis smoke within affordable housing units.
24.	Public health and safety	Secondhand smoke	The County should conduct a study, and implement a comprehensive secondhand cannabis smoke campaign, to reduce health risks to youth, employees, and other members of the public. The study and the campaign will be used to explore concrete policy options for regulating secondhand smoke.
25.	Personal cultivation	Education	The County should provide information on best practices for indoor and outdoor personal cannabis cultivation, including responsible pesticide use, waste disposal, odor control, and other health and safety concerns, and should establish a voluntary inspection program focused on safety and security.
26.	Personal cultivation	n/a	The County should consider the impact of existing restrictions on the outdoor cultivation of cannabis for personal use, to be in line with state guidelines.

Attachment II: Advisory Working Group Recommendations

	Topic	Subtopic	Recommendation
27.	Personal cultivation	n/a	The County should follow state rules (Compassionate Use Act) regarding personal cultivation for qualified medical patients, with no more than 3 patients cultivating per residence.
28.	Onsite consumption	n/a	As a harm reduction measure and to incentivize responsible consumption, the County should consider implementing a time-limited pilot program to allow for on-site consumption at licensed cannabis retailers and microbusinesses if separate consumption areas are provided. There should be a separate license and eligibility for the pilot program which should be limited to businesses who use responsible sales and service training and are located near public transportation, in order to reduce the amount of driving to and from such locations. As part of this pilot program, the County should track data indicators to track the needs for onsite consumption and analyze the outcomes from allowing on-site consumption and assess impacts on public health and safety, including but not limited to changes in the number of citations for driving under the influence of drugs, public consumption, odor complaints, and health impacts for employees of these businesses. Engaging community stakeholders, which would include businesses, in developing this pilot program. Applicants should go through a discretionary hearing and demonstrate how they will handle DUIs and secondhand smoke.
29.	Cannabis retailers	Delivery	The County should implement appropriate regulations on the retail delivery of cannabis to ensure that delivery does not become an avenue for underage youth to access cannabis. Such regulations could include the use of age-verification technology during deliveries and special recordkeeping requirements. When considering regulations for retail cannabis delivery, the County Board of Supervisors should review research concerning youth access to alcohol in jurisdictions where alcohol delivery is permitted.
30.	Cannabis retailers	Delivery	The County should require that, prior to engaging in cannabis delivery, a cannabis retailer register the identity of delivery drivers and vehicles used for delivery with the County and law enforcement on going as needed. The delivery vehicle should be solely for the purpose of the Cannabis industry and with no visible identification. Law enforcement should be properly trained to enforce this.
31.	Cannabis retailers	Hours of operation	Subject to state law or regulation, the County should set hours of operation for cannabis retail storefronts that allows sufficient customer access before and after work hours, but should consider allowing extended hours for medical cannabis delivery only after retail storefronts are required to close.

Attachment II: Advisory Working Group Recommendations

	Topic	Subtopic	Recommendation
32.	Cannabis retailers	Numerical and concentration limits	The County should consider alternatives to capping the number of cannabis retail licenses, such as implementing a discretionary process, such as a conditional use hearing, that requires the hearing body to find that issuing the cannabis retail license is needed and will not result in an overconcentration in any neighborhood consistent with state law and zoning based on the ratio of retail licenses to population and other key indicators that impact quality of life and environment, including, for example, whether a cannabis retailer proposes to locate in a high crime reporting district. Per capita should not be considered. The County should conduct an analysis with GIS to study population density to prevent overconcentration based on current state sensitive-use buffers. The County should consider alternatives to setting minimum distances between retailers, being sensitive to commercial and industrial zones.
33.	Cannabis retailers	Loitering and onsite consumption	The County should require cannabis retail businesses to have a security plan in place to prevent the misuse of recreational cannabis consumption by employees, and to prevent loitering, and cannabis consumption in parking lots, alleys, and other open areas adjacent to their businesses. The respective business should be well-lit and kept clean, and debris-free by the business operator. Businesses should clearly display signs with “no loitering, no public drinking, and no public cannabis use” in the business and immediately outside.
34.	Cannabis retailers	Onsite signage	Signage should comply with current County guidelines. Signage should be functional rather than promotional. County should further explore signage possibilities to maximize business operations and reduce appeal to children and youth, and nuisance to neighborhoods. The County should consider restricting signage on vehicles, pending legal analysis.
35.	Cannabis retailers	Security	In connection with any new license or renewal application, the County should require each cannabis business to submit an individualized security plan that implements industry best practices to deter crime and facilitate response and intervention by law enforcement, including but not limited to physical improvements to deter crime, camera and alarm systems, and onsite security personnel.
36.	Cannabis retailers	Employee requirements	The County should require mandatory retail employee/budtender training on how to maintain a safe retail environment, how to avoid sales of cannabis to individuals under the influence of alcohol or other drugs, and how to provide consumer education on safe and responsible product use and health risks and consequences, particularly for novice users.
37.	Cannabis retailers	Signage and advertising	The County should evaluate the feasibility of requiring cannabis licensees to include accurate, science-based warning labels on cannabis advertising, similar to those required in the context of alcohol and tobacco.

Attachment II: Advisory Working Group Recommendations

	Topic	Subtopic	Recommendation
38.	Cannabis retailers	Signage and advertising	<p>Part A The County should restrict cannabis advertising at or sponsorship of events, including but not limited to concerts, fairs, festivals and sporting events at County owned or operated facilities, consistent with how alcohol and tobacco products are treated. Exemptions should be considered for health and wellness events.</p> <p>Part B The County should advocate for changes to state law to expand the restrictions in Business and Professions Code section 26151(b) to include advertising at or sponsorship of events, including but not limited to concerts, fairs, festivals and sporting events.</p>
39.	Cannabis retailers	Signage and advertising	The County should evaluate the feasibility of prohibiting branded merchandise primarily marketed to and used by youth, including but not limited to toys, games, video game systems, and clothing.
40.	Cannabis retailers	Location	<p>Part A The County should require cannabis retailers to locate not less than 1,000 feet from schools (K-12), and 600 feet from daycare centers and youth centers.</p> <p>Part B The County should consider establishing 600 feet buffers between cannabis retailers from public parks, playgrounds, and libraries. The County should consider whether to establish minimum distances between cannabis retailers and licensed youth alcohol or drug abuse treatment facilities. The County should carefully study any buffering and minimum distance rules to ensure that such rules will not unreasonably eliminate the ability of cannabis businesses to establish in unincorporated County areas, incentivize the continued operation of the unlicensed cannabis market, or create other unintended consequences such as the inequitable distribution of cannabis businesses throughout the County.</p> <p>Part C The County should ensure a variance procedure is available to applicants seeking to establish a cannabis retail business.</p> <p>Part D The County should publish a map depicting where cannabis retailers can locate prior to adopting any buffering regulations. This map should include demographic and socioeconomic data for the County's unincorporated areas.</p>
41.	Non-retail cannabis businesses	Location	<p><u>Cultivators, Manufacturers, Distributors, Microbusinesses</u></p> <p>Cannabis cultivators, manufacturers, distributors and microbusinesses should be required to obtain discretionary permits.</p> <p><u>Testing Laboratories</u></p> <p>Cannabis testing laboratories should be permitted through a ministerial approval process.</p>

Attachment II: Advisory Working Group Recommendations

	Topic	Subtopic	Recommendation
42.	Non-retail cannabis businesses	Requirements for cultivators and manufacturers	<p>The County should require cannabis cultivators and manufacturers to submit for County review and approval prior to commencing operations, and in connection with any license renewal, an operating plan that addresses the following components to the satisfaction of the County:</p> <ul style="list-style-type: none"> • Odor control and mitigation, both within the facility and outside the facility; • Energy conservation and sustainability; • Water conservation and sustainability; • Waste and wastewater disposal; • The application and storage of pesticides, fertilizers, and other hazardous chemicals; • Environmental sanitation standards consistent with the production of food products; and • Security.
43.	Non-retail cannabis businesses	Cultivators	The County should conduct an analysis of the environmental impacts of indoor versus outdoor cultivation, and the differential effects in terms of revenue and regulatory and enforcement costs of allowing or prohibiting commercial outdoor cultivation.
44.	Non-retail cannabis businesses	Cultivators	The County should evaluate whether offering a license type comparable to a State Type 1C-speciality cottage cultivation license could stimulate regenerative agriculture in urban areas and encourage small business operators.
45.	Non-retail cannabis businesses	Cultivators	The County should require cultivators to allow the utility company to provide their monthly electricity usage for two years and then consider additional regulations for cannabis cultivation to make cultivation more energy efficient and offer incentives for efficient energy usage.
46.	Non-retail cannabis businesses	Manufacturers	The County should adopt regulations to support the enforcement of state rules for cannabis product preparation and labeling.
47.	Non-retail cannabis businesses	Microbusiness	The County should offer a license type for microbusinesses and should apply regulations to microbusinesses consistent with those applied to cannabis retailers, manufacturers, distributors, and cultivators. The County should use the microbusiness license to encourage local ownership and the participation of small businesses in the cannabis marketplace.
48.	Non-retail cannabis businesses	Testing labs	The County should allow an appropriate ratio of cannabis testing laboratory licenses to dispensary, cultivation, and manufacturing licenses, to ensure sufficient and speedy testing. The County should consider giving application priority to existing laboratories that perform similar testing on non-cannabis products.

Attachment II: Advisory Working Group Recommendations

	Topic	Subtopic	Recommendation
49.	Non-retail cannabis businesses	Numerical and concentration limits	The County should consider alternatives to capping the number of non-retail cannabis licenses, such as requiring the hearing body for a discretionary use permit to find that issuing the license is needed and will not result in an overconcentration in any neighborhood consistent with state law and zoning based on the ratio of licenses to population and other key indicators that impact quality of life and environment.
50.	Compliance	n/a	The County should establish sufficient civil penalties, not less than \$20,000 per day or penalties levied by surrounding jurisdictions, and work with utility providers to shut off utilities as a deterrent to combat unlicensed operators.
51.	Compliance	n/a	The County should ensure that its application and licensing processes are sufficiently robust to identify and prevent organized crime from participating in the licensed cannabis marketplace.
52.	Taxation	Tax rates	<p>Part A The County should implement a low initial tax rate and be differentiated by type of license, including a volume tax for cultivators and square footage tax for nurseries.</p> <p>Part B The County should increase its initial low tax rate over time as the licensed cannabis market establishes to a rate comparable with surrounding jurisdictions, including in particular the City of Los Angeles.</p> <p>Part C The County’s cannabis tax ordinance should provide flexibility to increase and decrease taxes in response to changing market conditions and changing consumption patterns for young adults as tracked by Public Health, and legislation or regulation at the federal and state levels.</p>
53.	Taxation	Revenue allocation	<p>The County should allocate funds needed for regulating the cannabis industry. (10% to OCM and other County departments, and 10% to law enforcement to be used for community engagement, implicit bias training, and diversion programs), in an amount not to exceed 20% of annual revenue. The remaining 80% should be broken out as listed below:</p> <ul style="list-style-type: none"> ▪ 50% of the annual revenue should be directed to science-based youth and young adult access prevention, intervention, and treatment (including training), including direct funding to youth centers (i.e. Parks After Dark) and after-school programming, community education, research, assessment/evaluation tools, and reporting funding, with 50% of this funding going to community-based organizations (including capacity building and training), and no less than 25% going to health promotion, disease prevention, and health equity, as defined by public health. ▪ 15% of annual revenue should go to an “Equity Fund,” established to support equity applicants.

Attachment II: Advisory Working Group Recommendations

	Topic	Subtopic	Recommendation
			<ul style="list-style-type: none"> ▪ 5% of annual revenue should go to programs in communities where licensed and unlicensed cannabis businesses are located, with funds concentrated where businesses are concentrated, to ensure that cannabis tax revenue stays local. ▪ 10% of annual revenue should be directed to LA-based community colleges and nonprofit vocational schools for job training, workforce development, and workforce programs (retail, manufacturing, ancillary, agricultural, administrative), prioritizing enrollment by those most disproportionately impacted by the historical and ongoing “War on Drugs,” such as arrests, convictions, incarcerations, poverty, lack of opportunities for education and employment.
54.	Economic development	Community Benefit Agreements	The County should require cannabis businesses to adopt community benefit agreements to give back to the local community. The CBA can take many forms, which can be fleshed out by criteria developed by the Equity Oversight Committee working with the OCM. CBA elements could include percent-of-profit giveback to community organizations, serving as an incubator to an equity applicant, community clean-ups and other support options.
55.	Economic development	Local and disadvantaged worker hire	<p>The County should require cannabis businesses to hire no less than 30% local workers. The County should utilize the County’s existing local worker hire provisions as guidance to define local workers and minimum hiring requirements.</p> <p>The County should also consider incentives for cannabis businesses that hire a minimum percentage of employees who were formally incarcerated or convicted, unemployed, veterans, and/or meet low-income definition. This would go through the Cannabis Equity Oversight Committee (see recommendation no. 64).</p>
56.	Economic development	Residency	The County should require a minimum of 51% of all ownership stakes in any cannabis business, except for testing labs, licensed in the County of LA to belong to individuals who have lived in LA County for a minimum of three years prior to the application. This policy should be re-assessed after five years to see whether the policy has had a positive impact on small business ownership.
57.	Economic development	Technical assistance	The County should assist applicants during the application process, or contract with nonprofits to provide such technical assistance. The County should offer ongoing technical and business assistance to applicants to help them remain compliant with applicable regulations.
58.	Economic development	License limits	To promote small businesses and restrict monopolization of the unincorporated County market, the County should limit the number of cannabis business licenses of any one type that any one individual or business entity can obtain within unincorporated areas, and should study the feasibility of limiting the size of retail cannabis businesses.

Attachment II: Advisory Working Group Recommendations

	Topic	Subtopic	Recommendation
59.	Economic development	Application restrictions	County should allow only one application at a time per proposed premises to eliminate multiple applications from one location.
60.	Economic development	Existing unlicensed businesses	The County should provide a “pathway to legalization” for existing, unlicensed cannabis businesses, provided these businesses cease operations during the application process and meet all zoning, buffering, and distancing requirements established by the County for cannabis businesses generally.
61.	Equity	Background checks	The County should not automatically disqualify applicants with criminal backgrounds, but should consider all available evidence in order to evaluate an applicant’s fitness to receive a cannabis business license from the County.
62.	Equity	Equity program	<p>Part A The County should set aside a certain percentage of licenses for “equity applicants,” with the goal of one-to-one applications. “Equity applicants” should include businesses where greater than 50 percent of the business is owned, in perpetuity, by persons who meet a certain income level, LA County residency (with a minimum of 3 years) and impacted person status, geography (prioritizing those from impacted neighborhoods within LA County), and other requirements that promote the equitable ownership of licenses by community members hardest hit by the “war on drugs.” Research on eligible “equity applicants” should include study of the Targeted Areas Preferences Act of 1986.</p> <p>Part B The County should offer “equity applicants” priority licensing, reduced fees, consider tax incentives excluding excise tax, and other similar incentives or benefits to reduce barriers to entry.</p> <p>Part C To reduce the burden on and risk for “equity applicants,” the County should allow “equity applicants” to apply for a cannabis business license without having secured a physical location. The County should provide “equity applicants” up to 6 months to secure compliant premises upon conditional approval of the cannabis business license application. The discretionary hearing will take place after the location is identified.</p> <p>Part D The County should work with interested investors to offer low-interest startup and business finance loans to “equity applicants.”</p> <p>Part E The County should create an incubator program, which would provide start-up, business development, access to capital, and other assistance to “equity applicants” seeking to establish a business in the competitive cannabis marketplace.</p> <p>Part F The County should conduct an assessment of the equity program after five years.</p>

Attachment II: Advisory Working Group Recommendations

	Topic	Subtopic	Recommendation
63.	Equity	Disadvantaged worker hire	The County should consider incentives for cannabis businesses that hire a minimum percentage of employees who were formerly incarcerated or convicted.
64.	Equity	Oversight Committee	The County should establish a permanent Cannabis Equity Oversight Committee to monitor and guide implementation of all equity programs and policies related to cannabis, including tracking and analyzing cannabis-related enforcement, including but not limited to citations, arrests, and business closures. The Cannabis Equity Oversight Committee should issue public reports on its findings at least once per year and be representative of a diverse group of community interests with no more than one representative from a law enforcement agency, such as an officer serving in a program like Community Safety Partnerships.

ATTACHMENT III: MAPS

- Set 1: Retail–Store
(C-3 and higher zones, all buffers)
- Set 2: Microbusiness-Store
(M zones only, all buffers)
- Set 3: Retail–Delivery-Only, Tester
(C-3 and higher zones, some buffers)
- Set 4: Cultivator–Indoor, Manufacturer–General, Manufacturer–Processor,
Distributor–General, Distributor–Transporter, Microbusiness-No Store
(M zones only, some buffers)

SET 1

RETAIL-STORE

(C-3 AND HIGHER ZONES, ALL BUFFERS)

BY SUPERVISORIAL DISTRICT

Cannabis-Related Land Uses: Retail - Store

Featuring 300', 600', and 1,000' Buffers

Base Layers

- Major Road
- Freeway
- National Forest
- 1st Supervisorial District
- Other Supervisorial District
- Incorporated City
- Unincorporated Community
- Other County

Zoning and Buffers

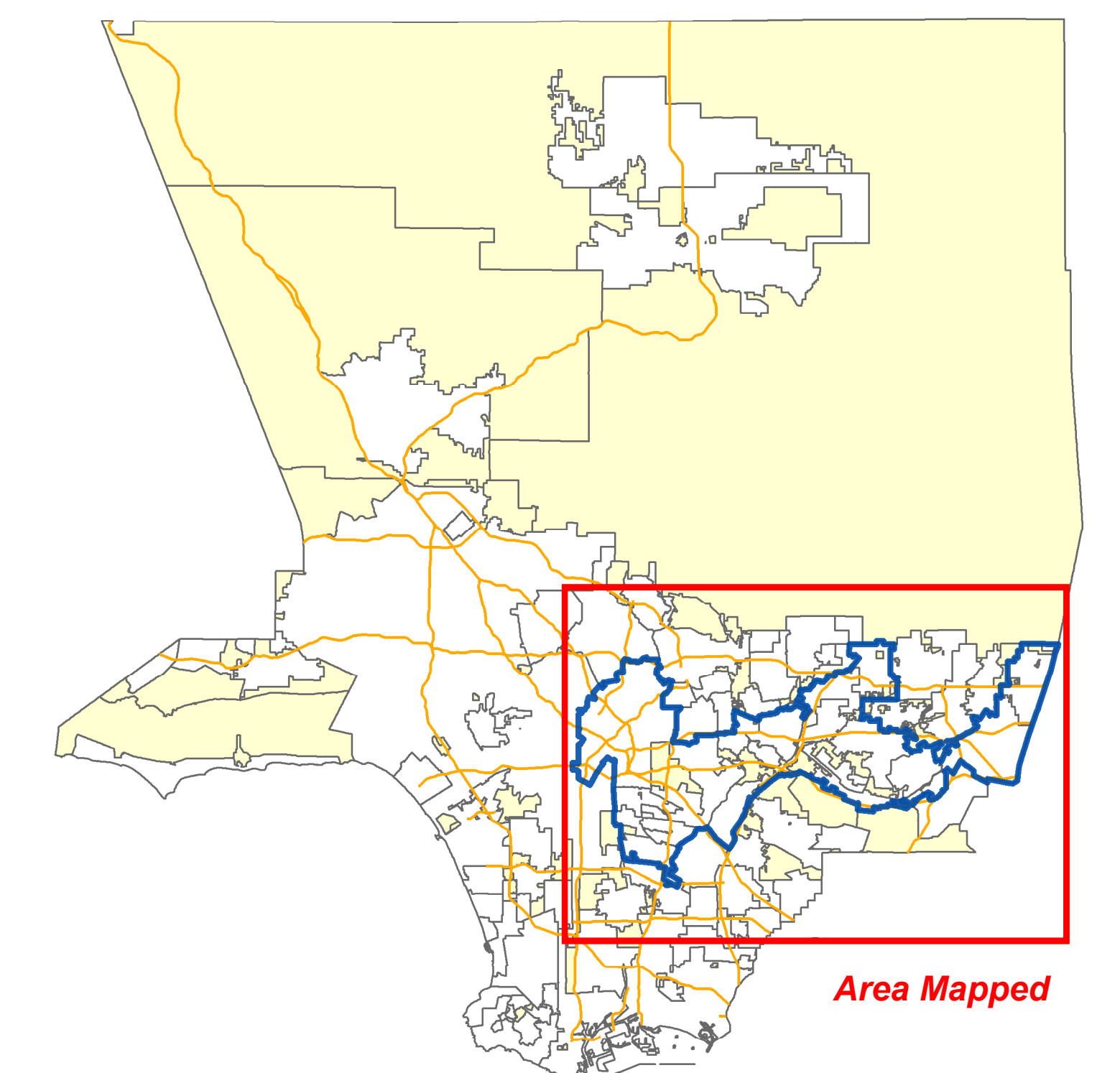
Proposed Zones for Cannabis-Related Development

- C-3 and C-M Commercial Zones
- M-1, M-1.5, and M-2 Manufacturing Zones

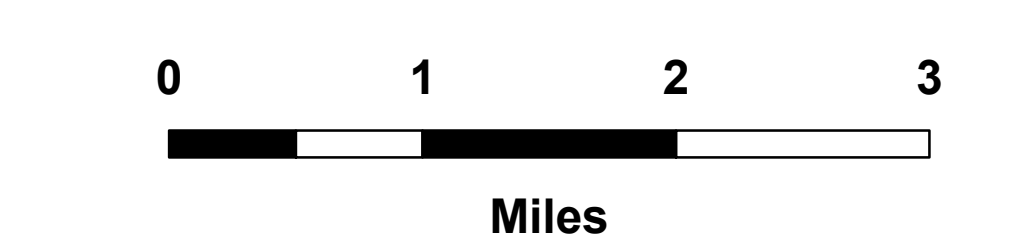
Buffers

- Merged Buffers Based on the Following Sensitive Uses (buffer sizes in parantheses):
 - Alcohol - Off-site Sales (300')
 - Alcohol and Drug Rehabilitation Facility (600')
 - Child Care Facility (600')
 - Public Library (600')
 - Public Park (600')
 - School (1,000')

Vicinity Map



LOS ANGELES COUNTY
Department of Regional Planning
320 W. Temple St., 13th Floor
Los Angeles, CA 90012



Map prepared by DRP GIS Section / December 2017

Cannabis-Related Land Uses: Retail - Store

Featuring 300', 600', and 1,000' Buffers

Base Layers

- Major Road
- Freeway
- 2nd Supervisorial District
- Other Supervisorial District
- Incorporated City
- Unincorporated Community

Zoning and Buffers

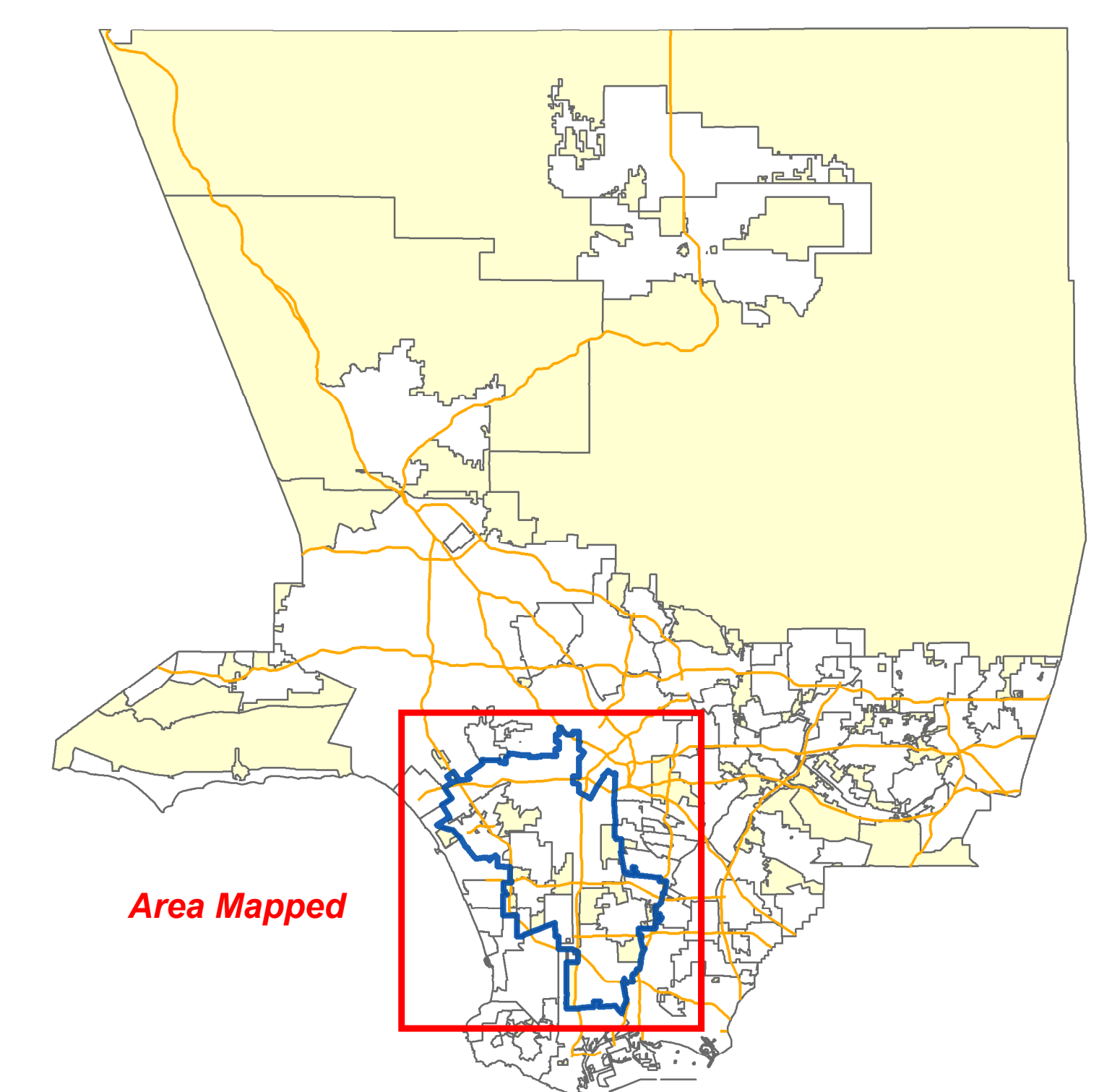
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- M-1, M-1.5, and M-2 Manufacturing Zones

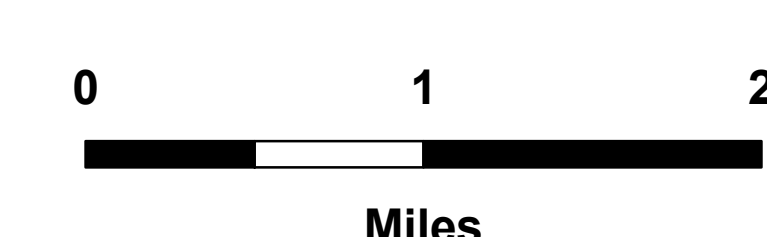
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Map prepared by DRP GIS Section / December 2017

Cannabis-Related Land Uses: Retail - Store

Featuring 300', 600', and 1,000' Buffers

Base Layers

- Major Road
- Freeway
- National Forest
- 3rd Supervisorial District
- Other Supervisorial District
- Incorporated City
- Unincorporated Community
- Other County

Zoning and Buffers

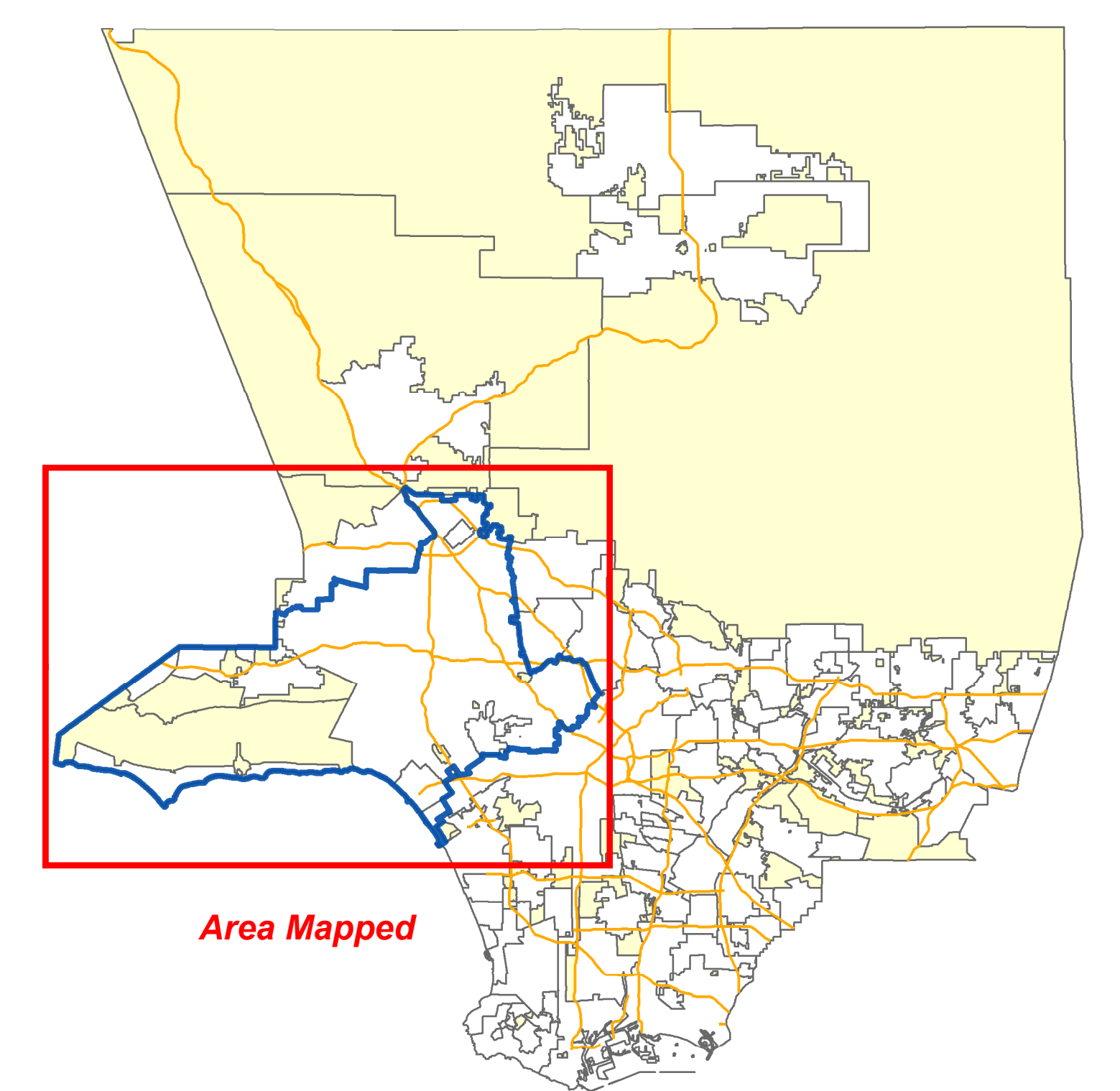
Proposed Zones for Cannabis-Related Development

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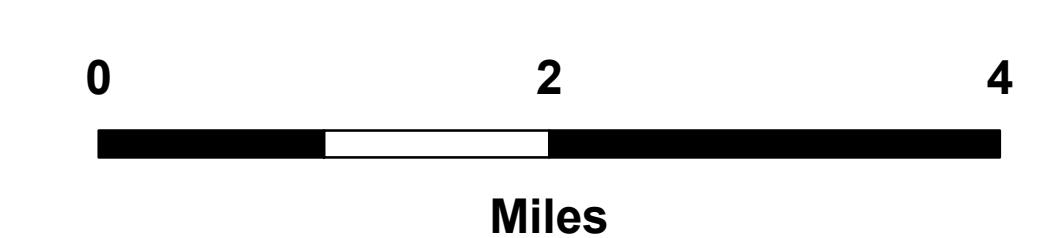
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 - Child Care Facility (600')
 - Public Library (600')
 - Public Park (600')
 - School (1,000')

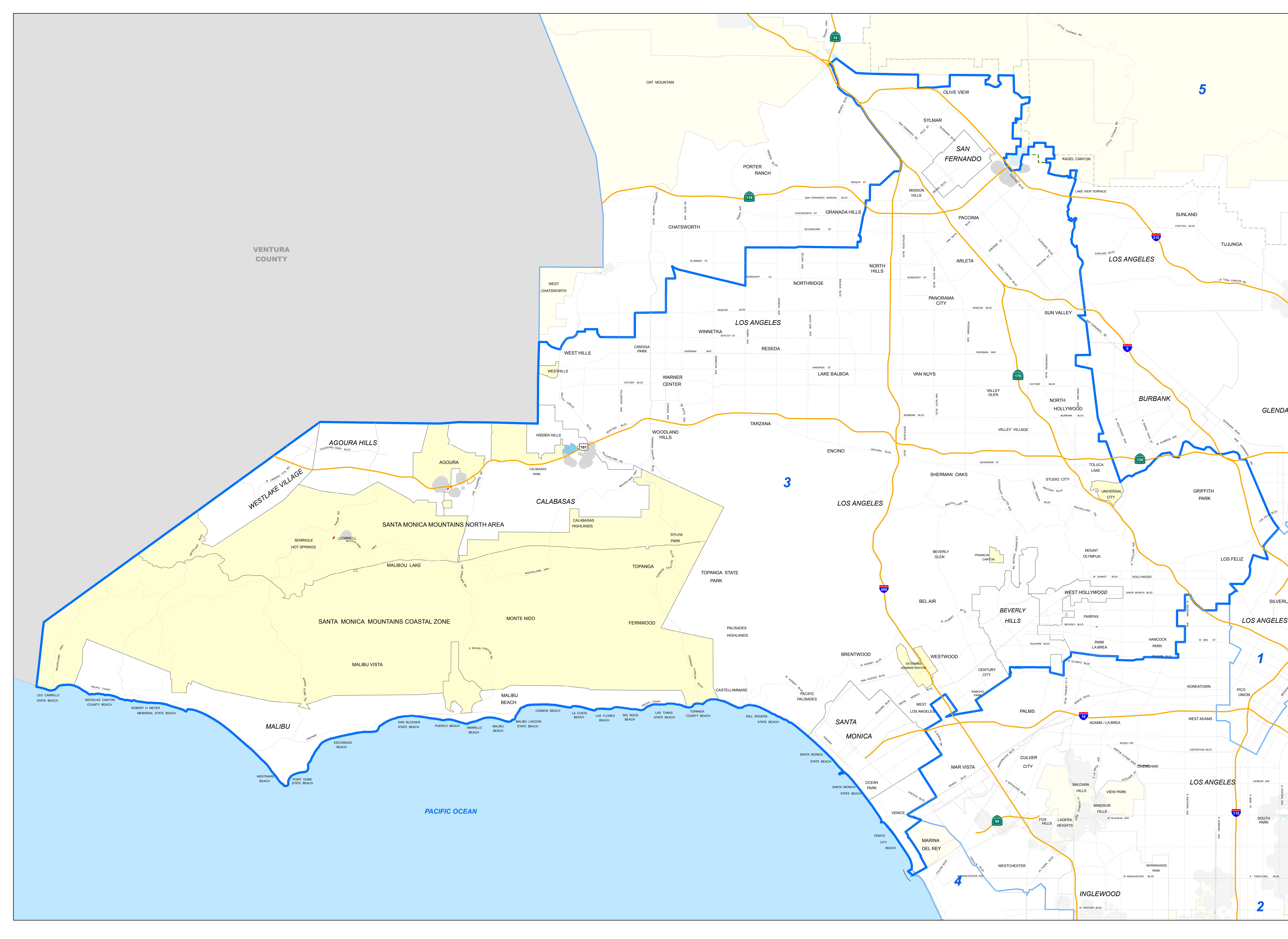
Vicinity Map



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Map prepared by DRP GIS Section / December 2017



Cannabis-Related Land Uses: Retail - Store

Featuring 300', 600', and 1,000' Buffers

Base Layers

- Major Road
- Freeway
- 4th Supervisorial District
- Other Supervisorial District
- Incorporated City
- Unincorporated Community
- Other County

Zoning and Buffers

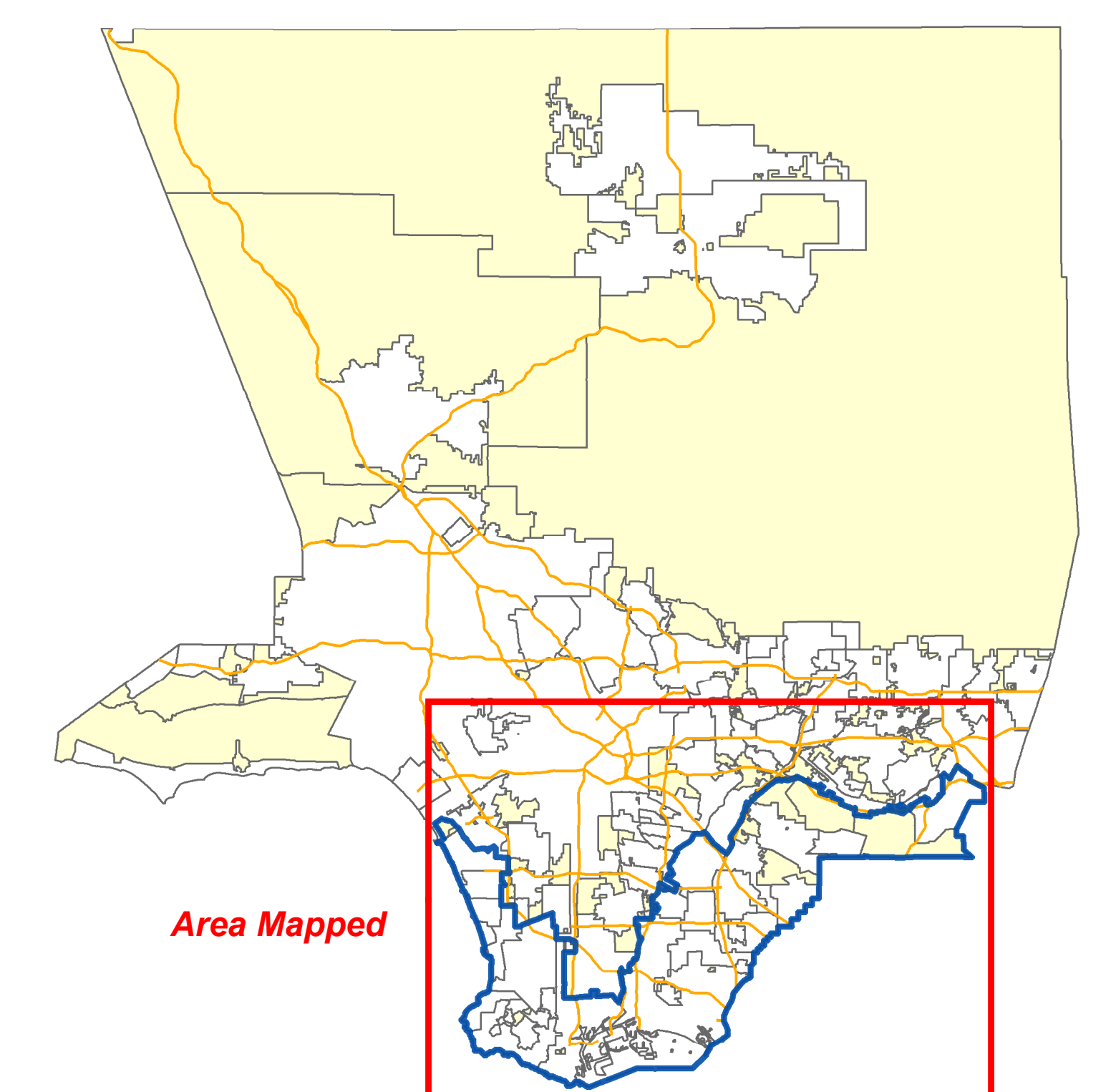
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Buffers

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Vicinity Map

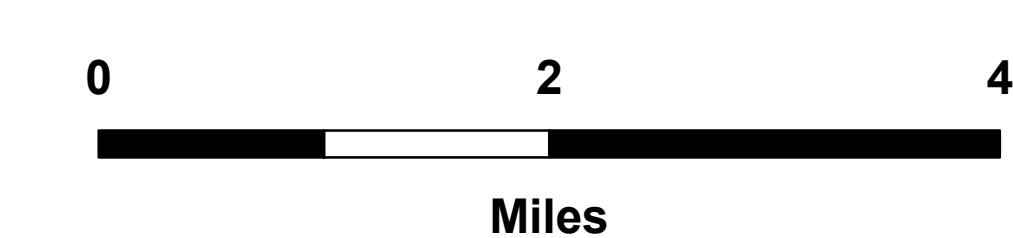


Area Mapped

Note: Santa Catalina & San Clemente Islands are part of the Fourth Supervisorial District, but do not have zoning that qualifies for potential cannabis-related development. For this reason, both islands are not shown on this map.



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Los Angeles, CA 90012



Map prepared by DRP GIS Section / December 2017

Cannabis-Related Land Uses: Retail - Store

Featuring 300', 600', and 1,000' Buffers

Base Layers

- Major Road
- Freeway
- National Forest
- 5th Supervisorial District
- Other Supervisorial District
- Incorporated City
- Unincorporated Community
- Other County

Zoning and Buffers

Proposed Zones for Cannabis-Related Development

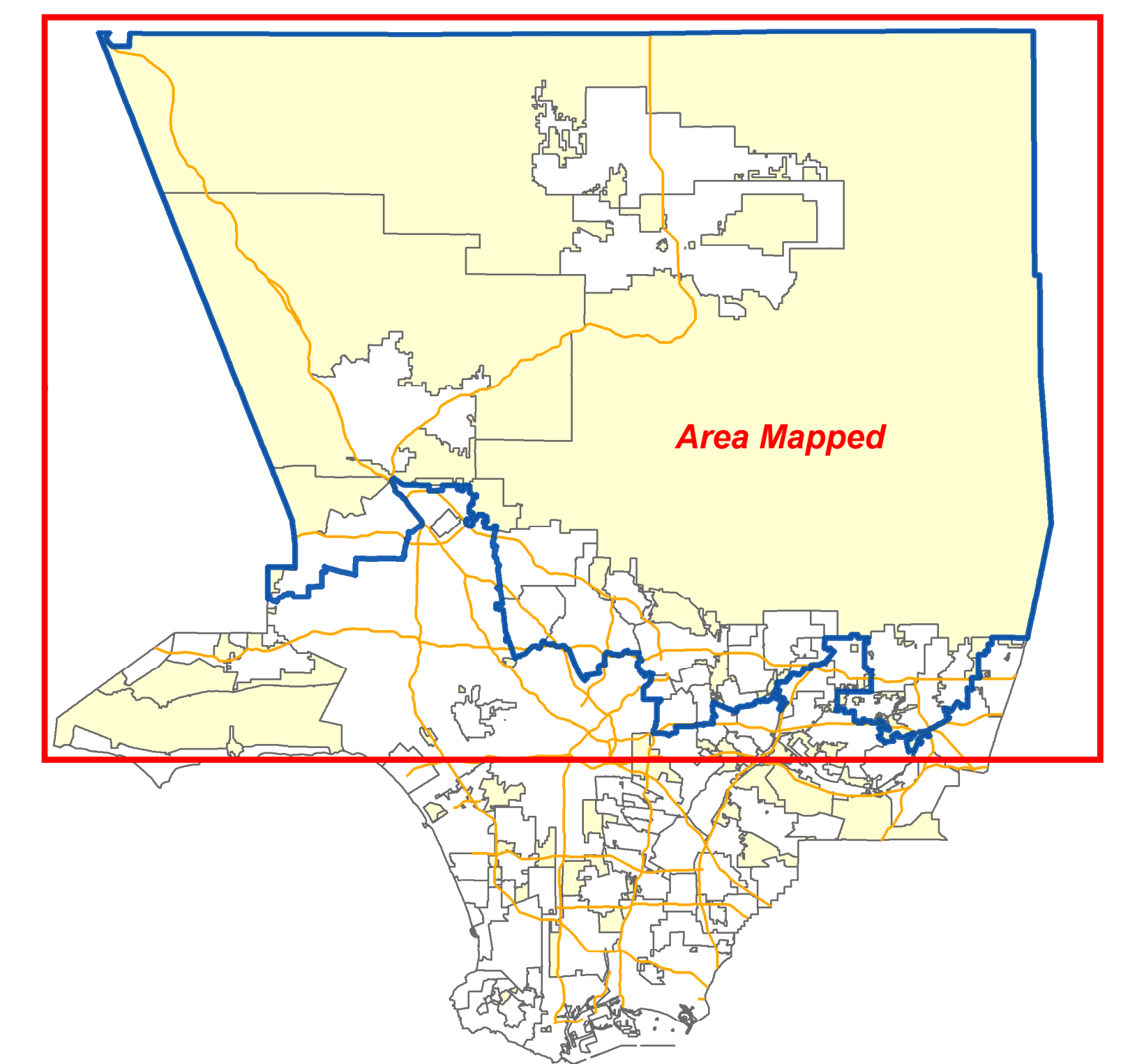
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Buffers

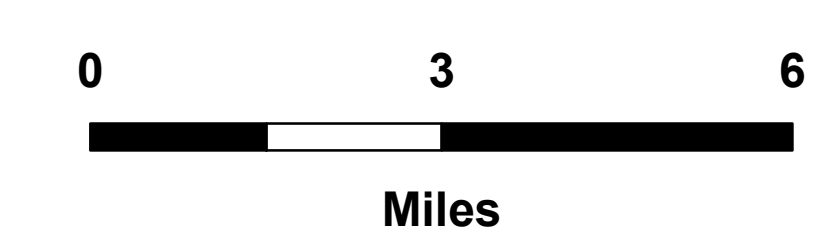
Merged Buffers Based on the Following Sensitive Uses (buffer sizes in parantheses):

- Alcohol - Off-site Sales (300')
- Alcohol and Drug Rehabilitation Facility (600')
- Child Care Facility (600')
- Public Library (600')
- Public Park (600')
- School (1,000')

Vicinity Map



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SET 2

MICROBUSINESS-STORE

(M ZONES ONLY, ALL BUFFERS)

BY SUPERVISORIAL DISTRICT

Cannabis-Related Land Uses: Microbusiness - Store

Featuring 300', 600', and 1,000' Buffers

Base Layers

- Major Road
- Freeway
- National Forest
- 1st Supervisorial District
- Other Supervisorial District
- Incorporated City
- Unincorporated Community
- Other County

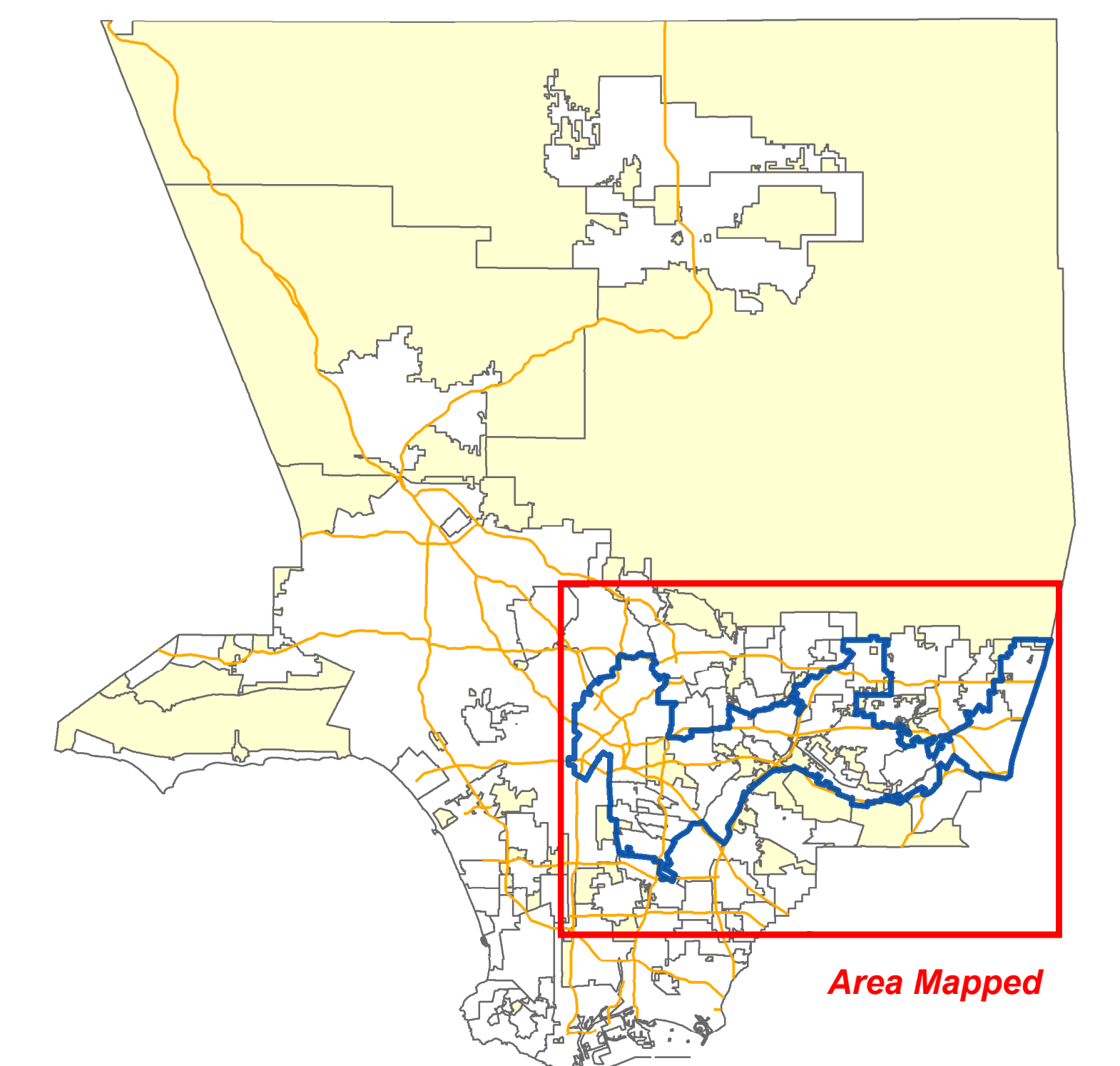
Zoning and Buffers

- Proposed Zones for Cannabis-Related Development**
- M-1, M-1.5, and M-2 Manufacturing Zones

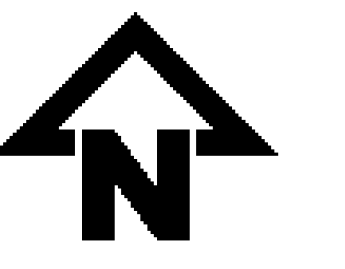
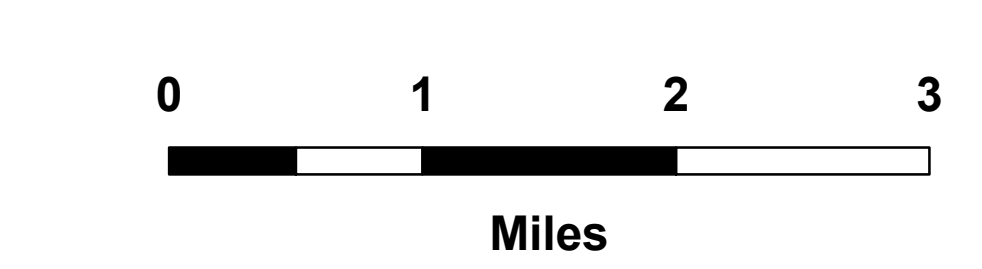
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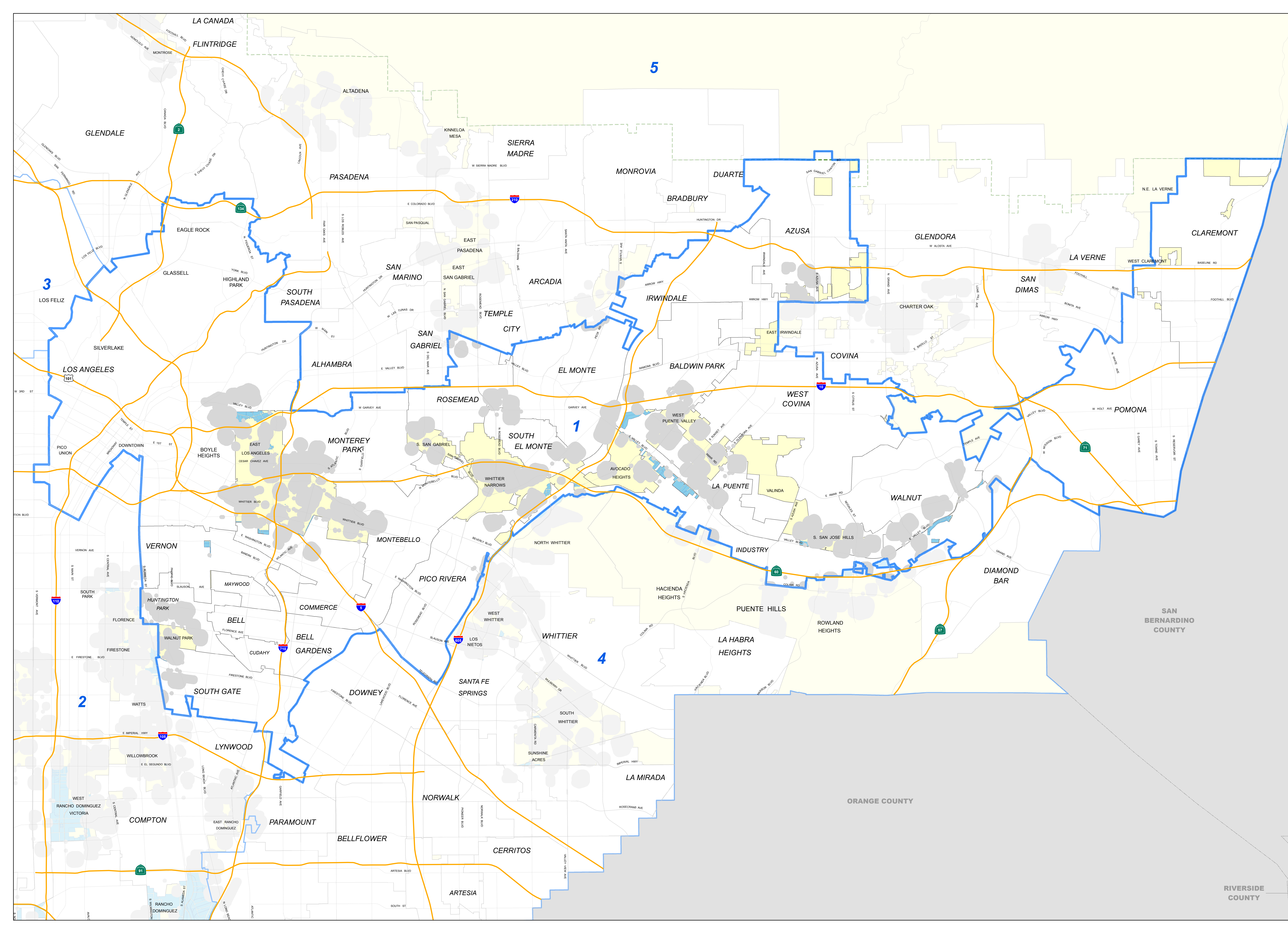
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Cannabis-Related Land Uses: Microbusiness - Store

Featuring 300', 600', and 1,000' Buffers

Base Layers

- Major Road
- Freeway
- 2nd Supervisorial District
- Other Supervisorial District
- Incorporated City
- Unincorporated Community

Zoning and Buffers

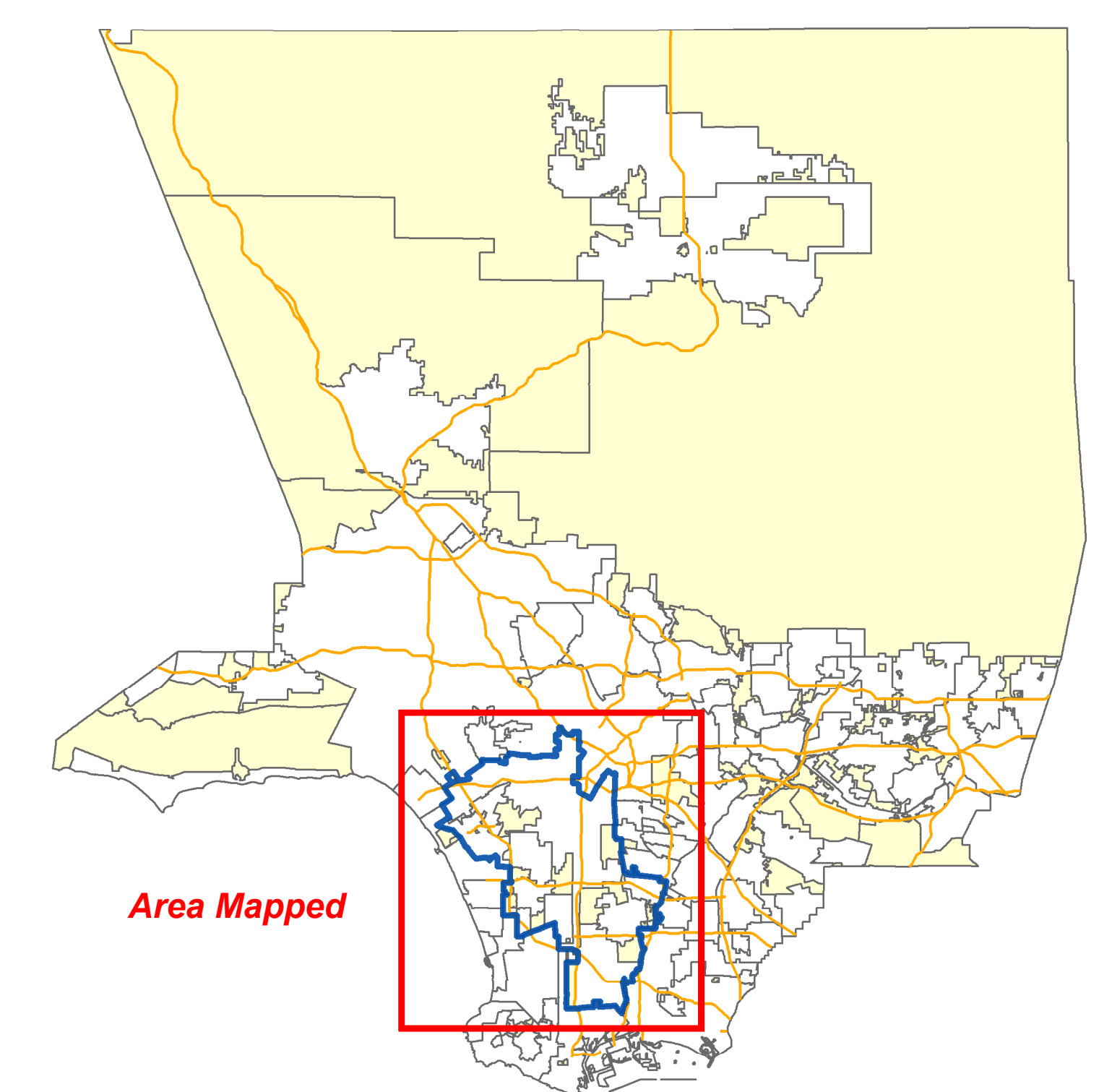
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- M-1, M-1.5, and M-2 Manufacturing Zones

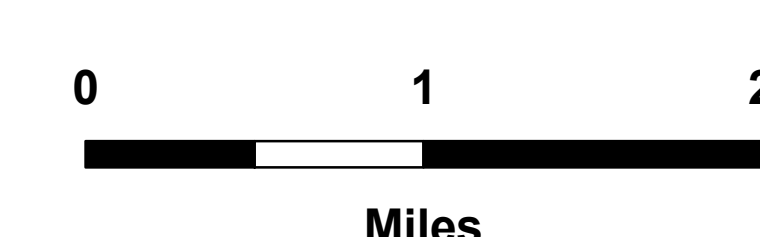
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Cannabis-Related Land Uses: Microbusiness - Store

Featuring 300', 600', and 1,000' Buffers

Base Layers

- Major Road
- Freeway
- National Forest
- 3rd Supervisorial District
- Other Supervisorial District
- Incorporated City
- Unincorporated Community
- Other County

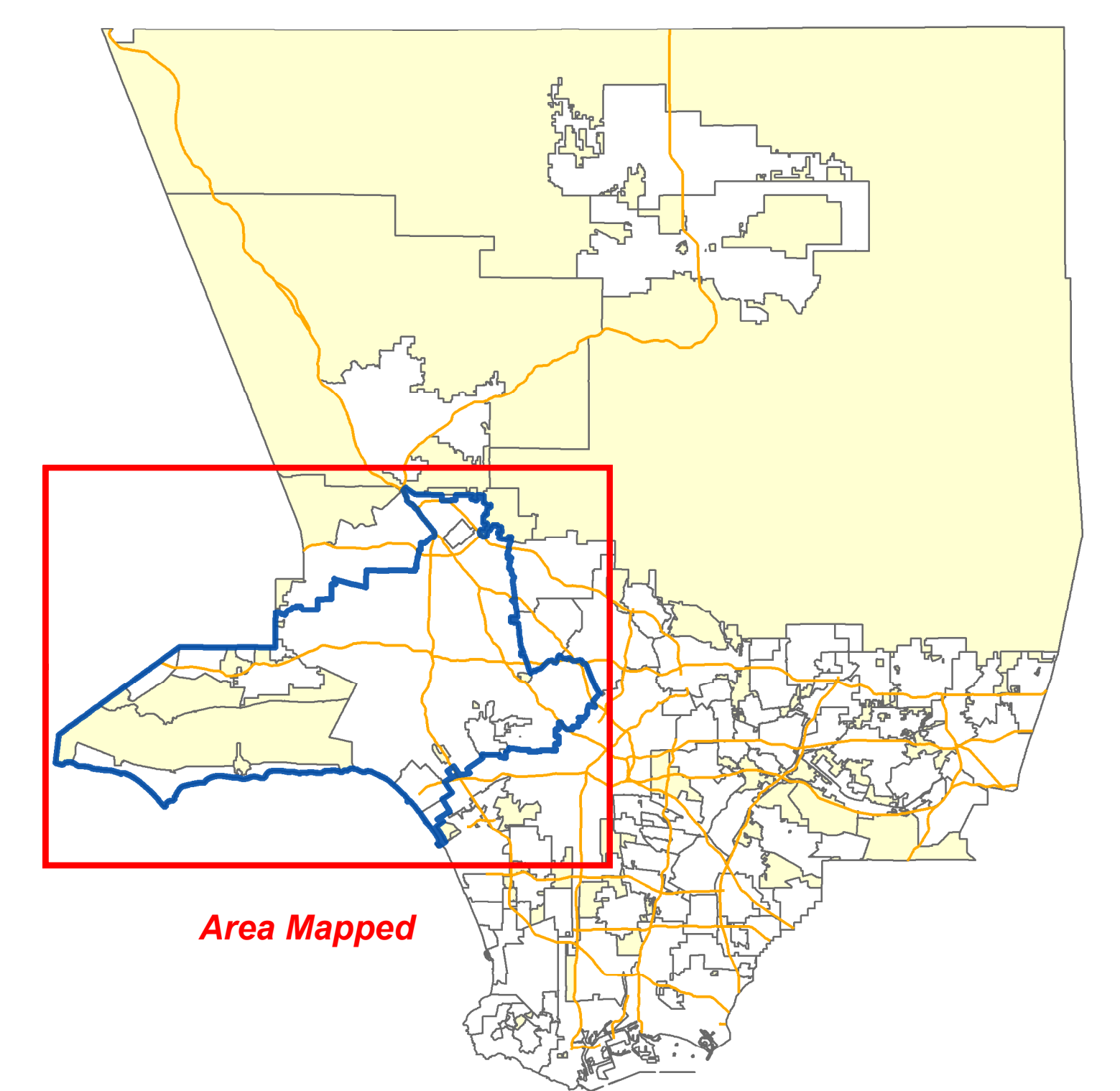
Zoning and Buffers

Proposed Zones for Cannabis-Related Development
M-1, M-1.5, and M-2 Manufacturing Zones

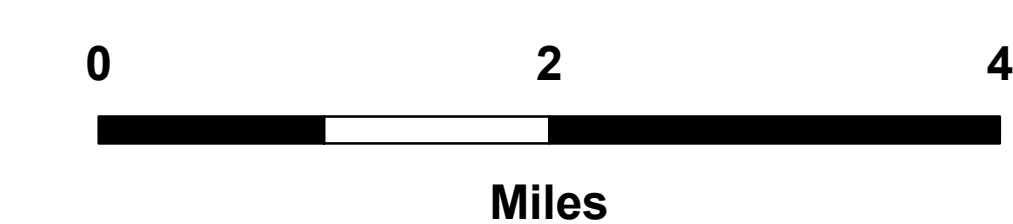
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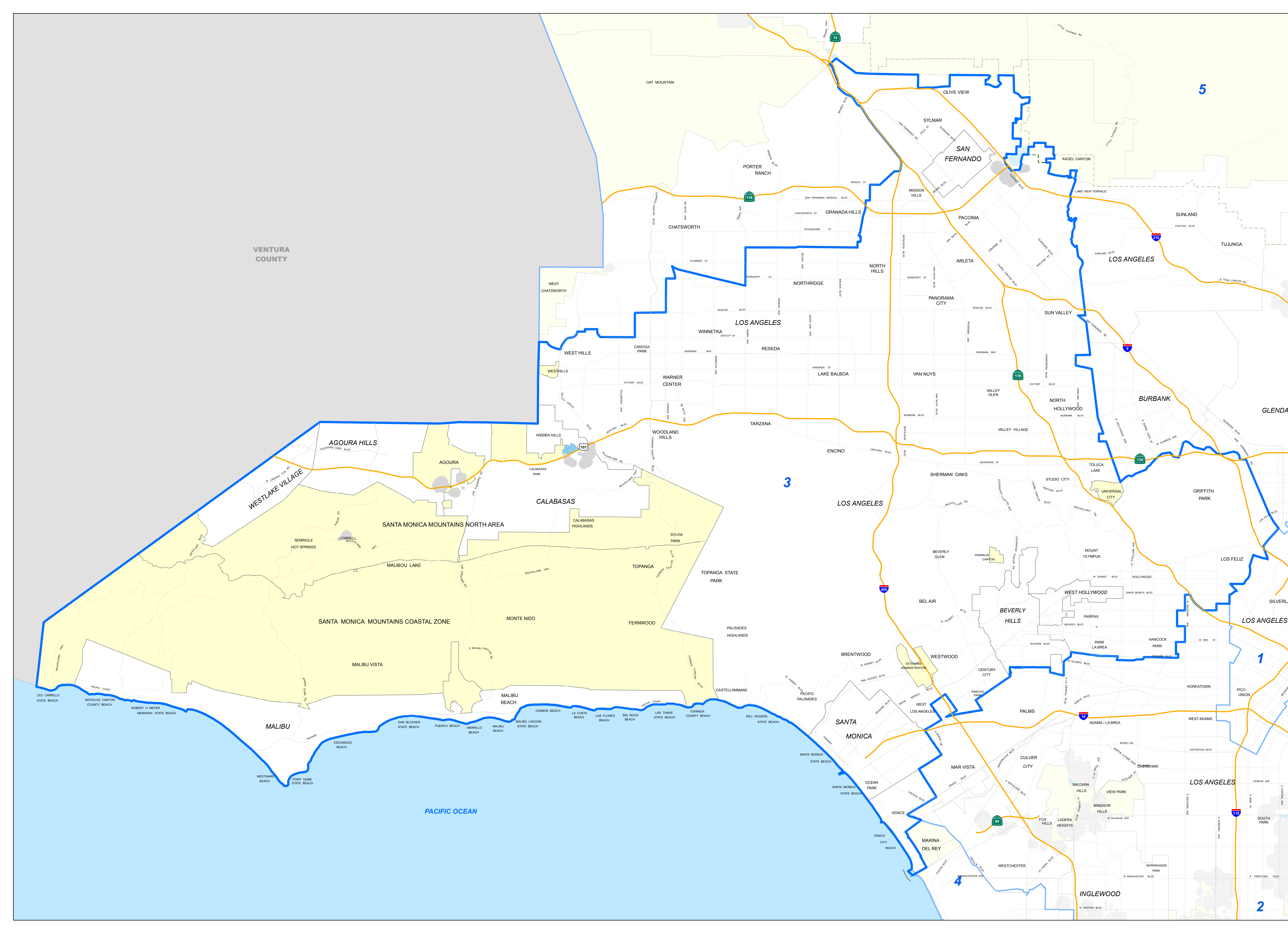
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Cannabis-Related Land Uses: Microbusiness - Store

Featuring 300', 600' and 1,000' Buffers

Base Layers

- Major Road
- Freeway
- 4th Supervisorial District
- Other Supervisorial District
- Incorporated City
- Unincorporated Community
- Other County

Zoning and Buffers

Proposed Zones for Cannabis-Related Development

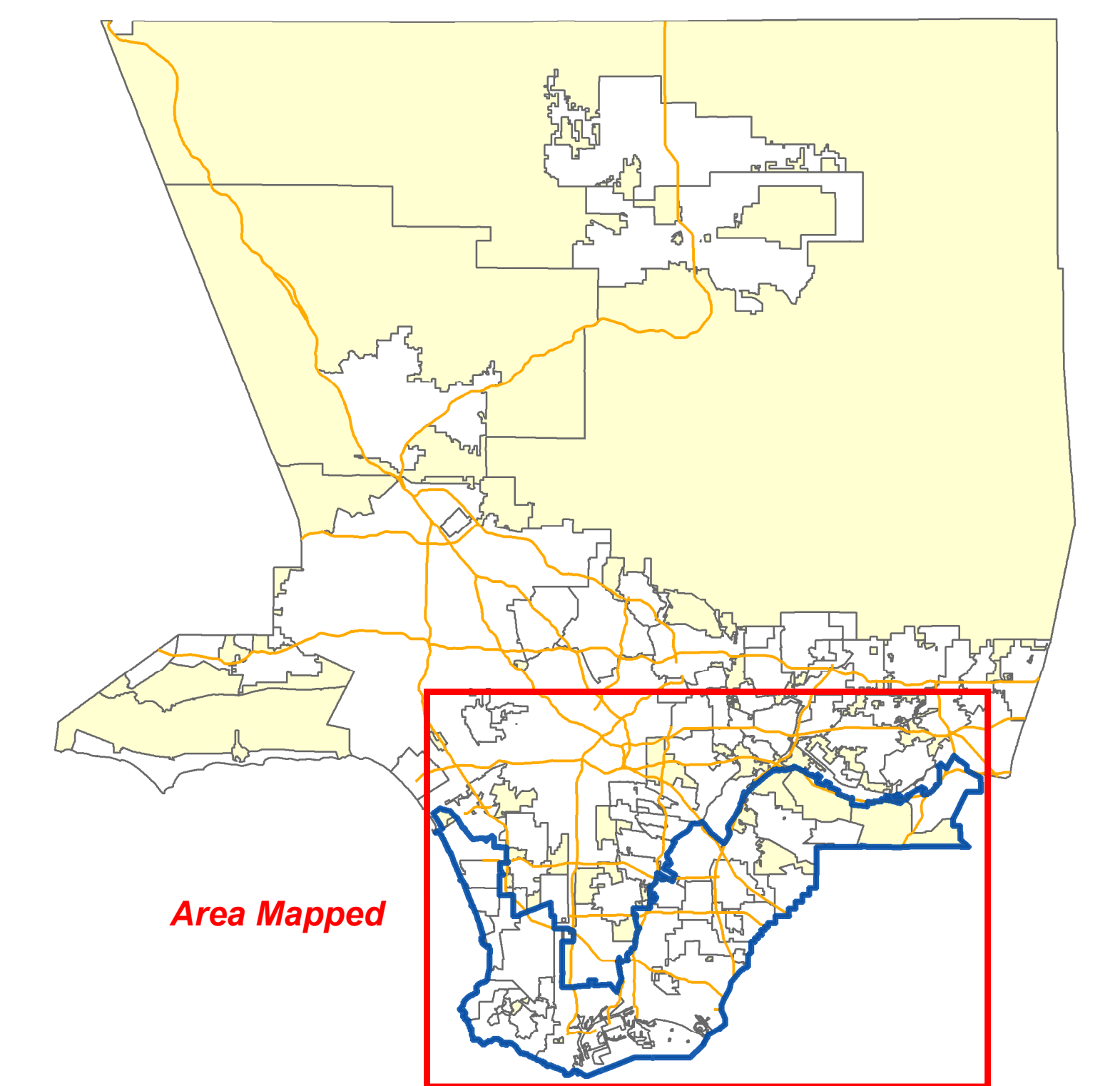
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Vicinity Map

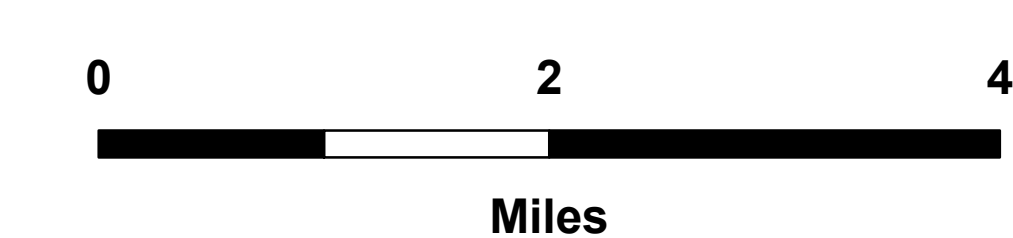


Area Mapped

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Cannabis-Related Land Uses: Microbusiness - Store

Featuring 300', 600', and 1,000' Buffers

Base Layers

- Major Road
- Freeway
- National Forest
- 5th Supervisorial District
- Other Supervisorial District
- Incorporated City
- Unincorporated Community
- Other County

Zoning and Buffers

Proposed Zones for Cannabis-Related Development

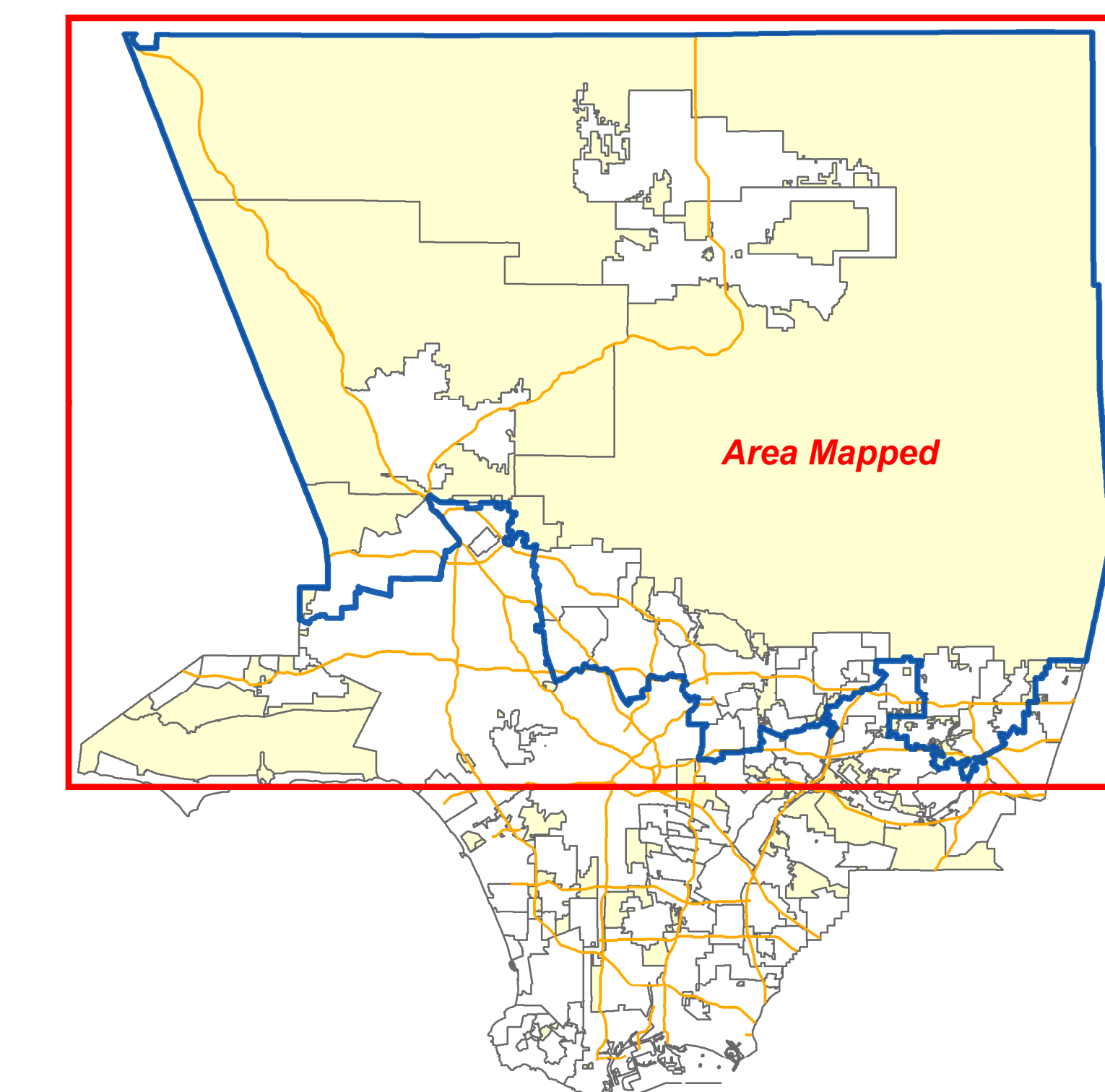
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Buffers

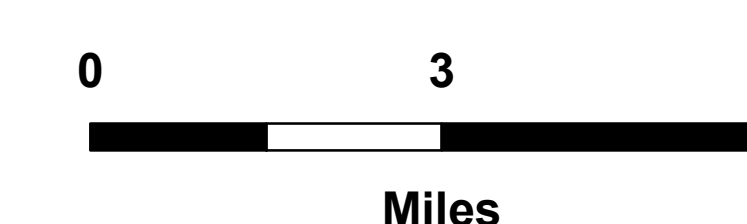
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Vicinity Map



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SET 3

**RETAIL-DELIVERY-ONLY
TESTER**

(C-3 AND HIGHER ZONES, SOME BUFFERS)

BY SUPERVISORIAL DISTRICT

Cannabis-Related Land Uses:

- Retail - Delivery Only
- Testing Laboratories

Featuring 600' and 1,000' Buffers

Base Layers

- Major Road
- Freeway
- National Forest
- 1st Supervisorial District
- Other Supervisorial District
- Incorporated City
- Unincorporated Community
- Other County

Zoning and Buffers

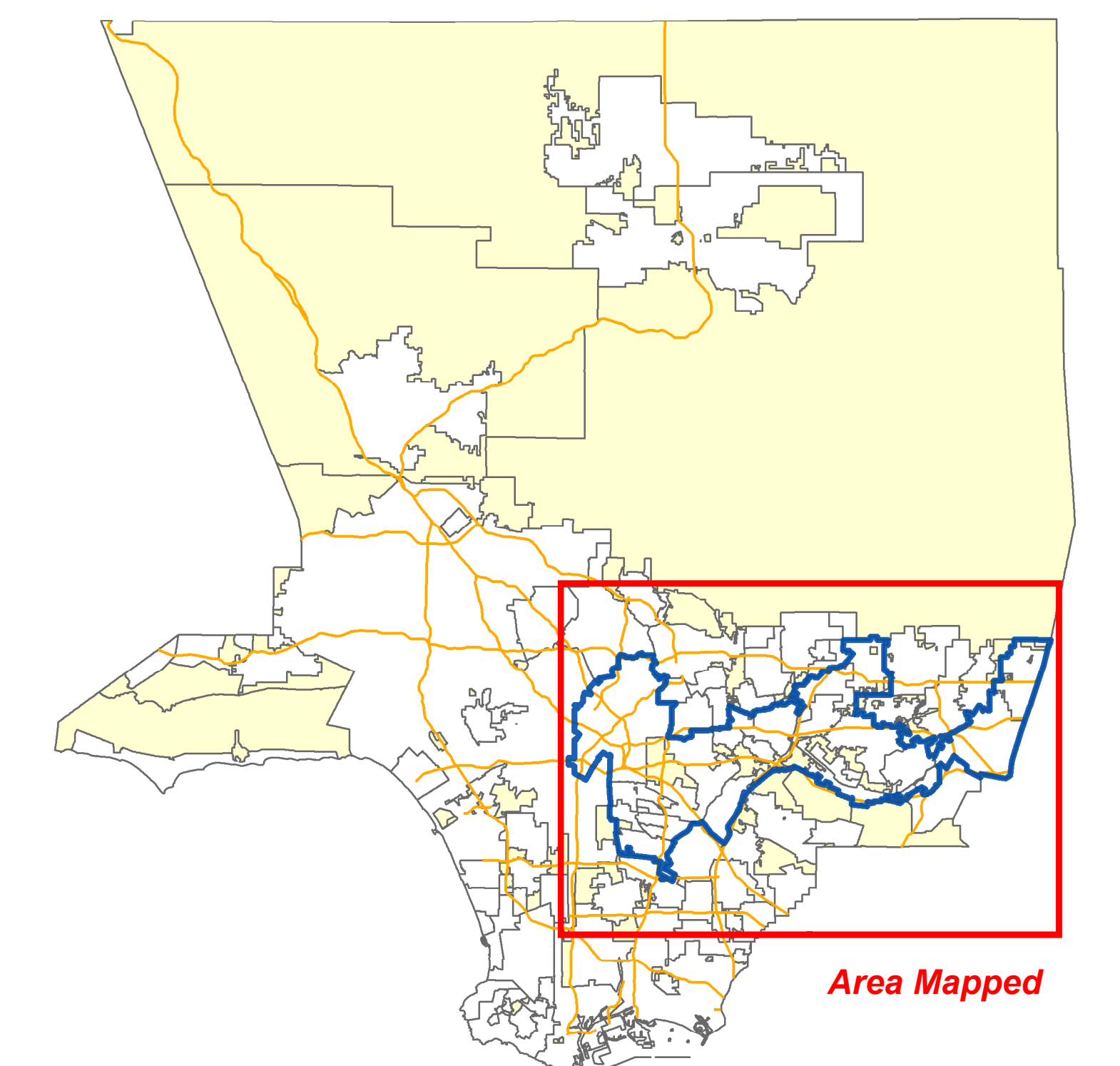
Proposed Zones for Cannabis-Related Development

- C-3 and C-M Commercial Zones
- M-1, M-1.5, and M-2 Manufacturing Zones

Buffers

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 - Child Care Facility (600')
 - Public Library (600')
 - Public Park (600')
 - School (1,000')

Vicinity Map



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Cannabis-Related Land Uses:

- Retail - Delivery Only
- Testing Laboratories

Featuring 600' and 1,000' Buffers

Base Layers

- Major Road
- Freeway
- 2nd Supervisorial District
- Other Supervisorial District
- Incorporated City
- Unincorporated Community

Zoning and Buffers

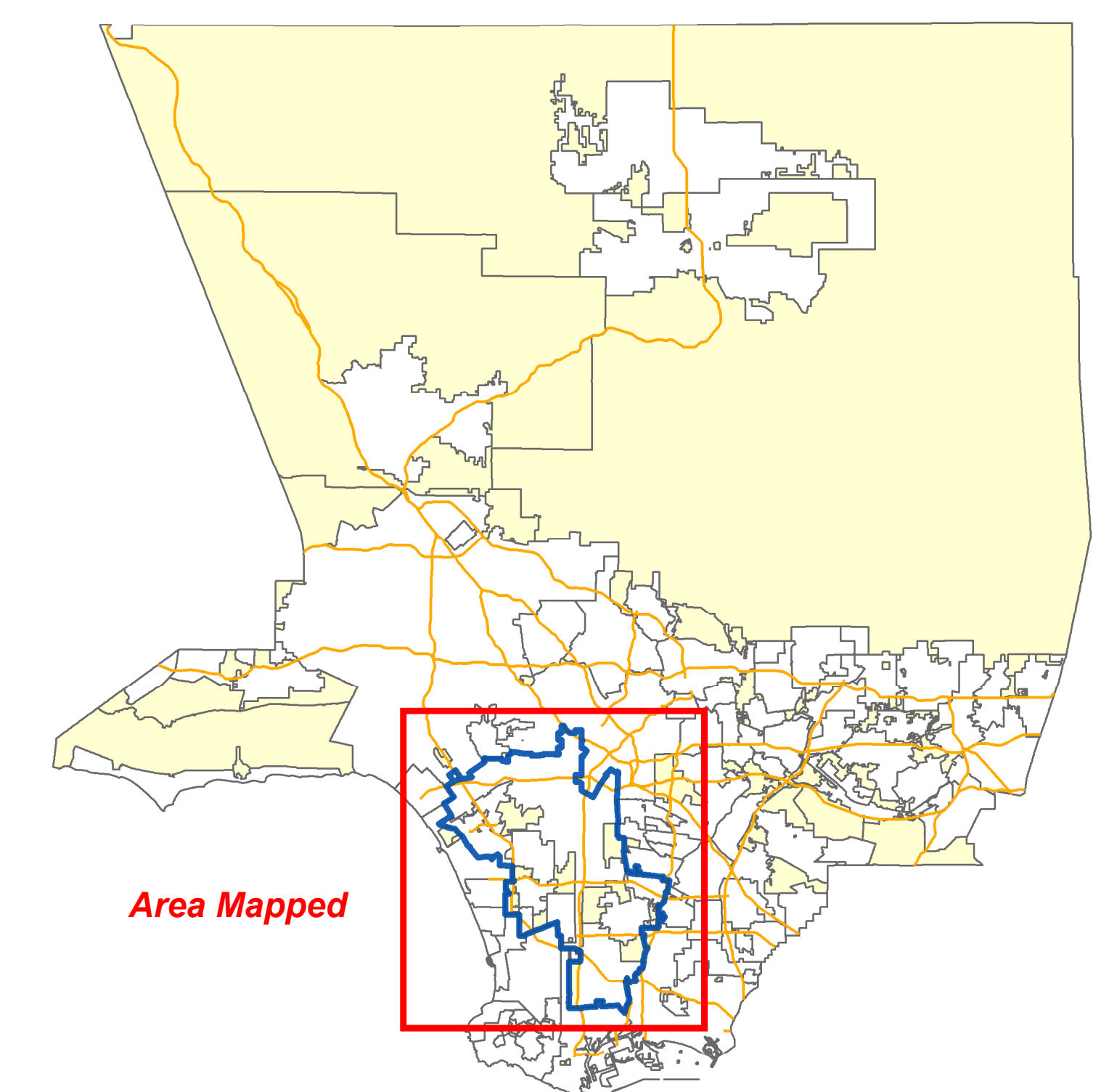
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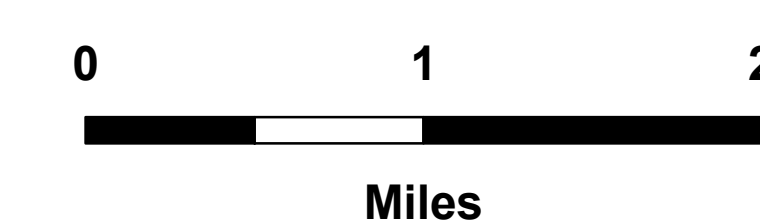
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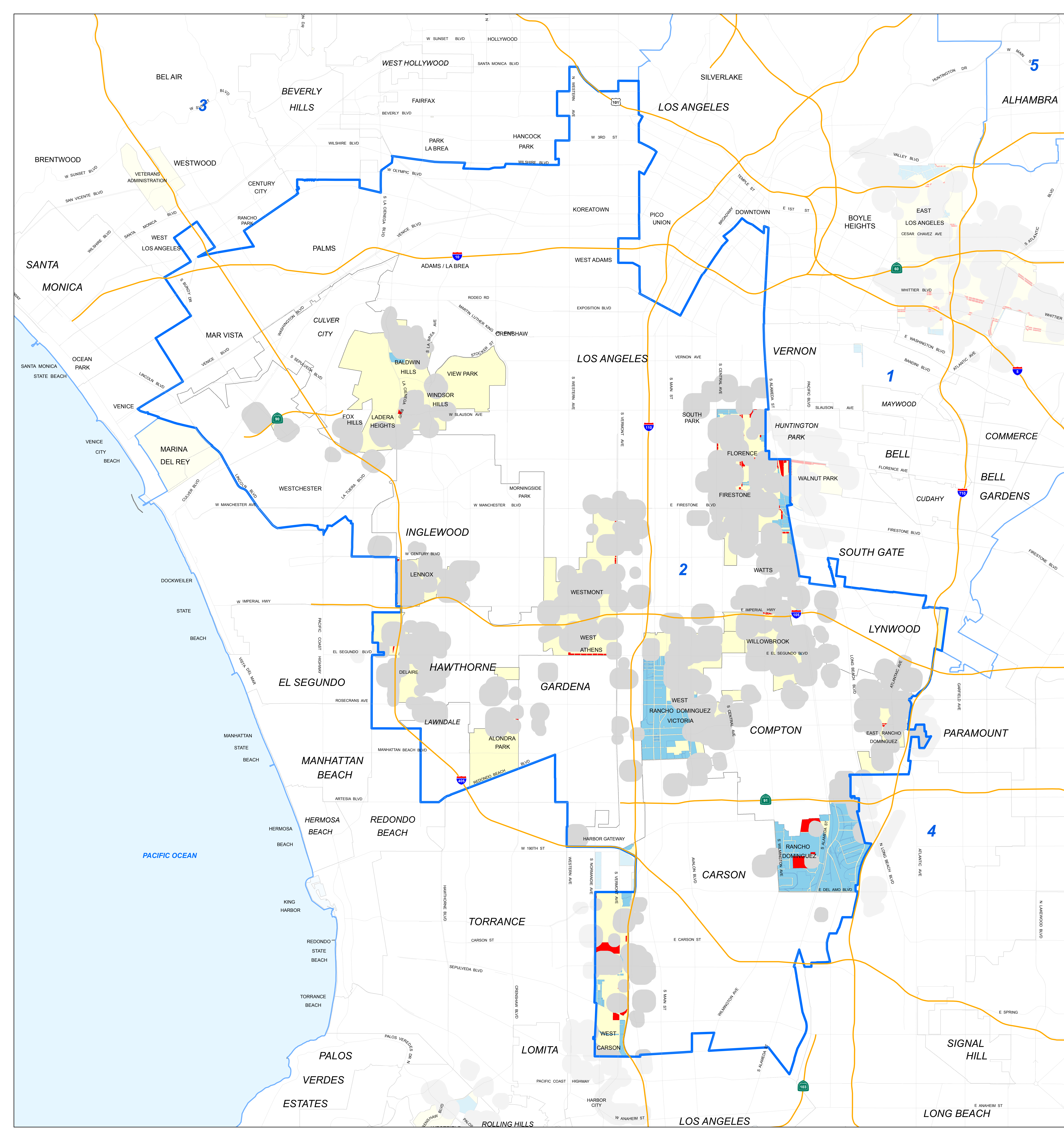
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Cannabis-Related Land Uses:

- Retail - Delivery Only
- Testing Laboratories

Featuring 600' and 1,000' Buffers

Base Layers

- Major Road
- Freeway
- National Forest
- 3rd Supervisorial District
- Other Supervisorial District
- Incorporated City
- Unincorporated Community
- Other County

Zoning and Buffers

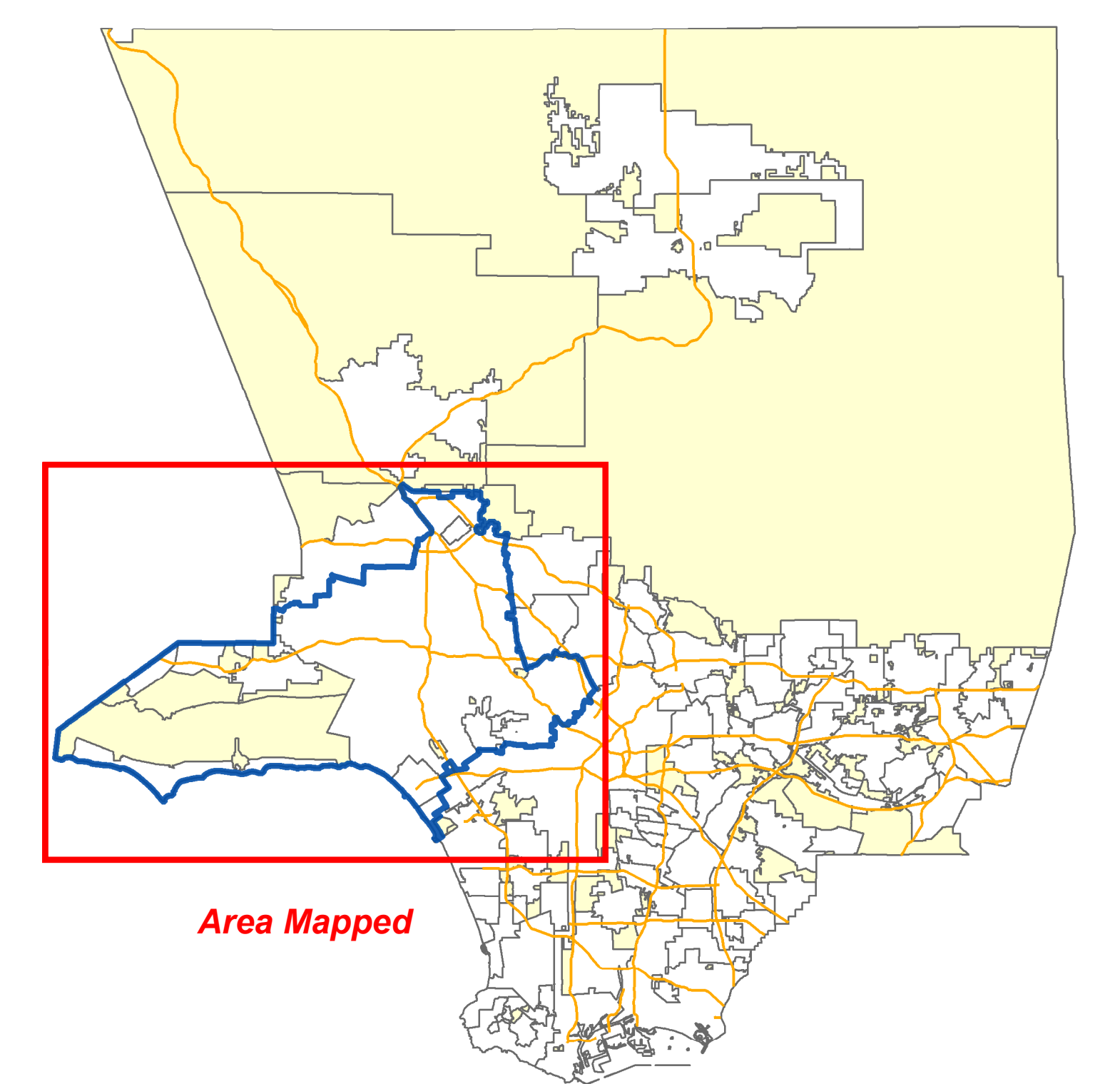
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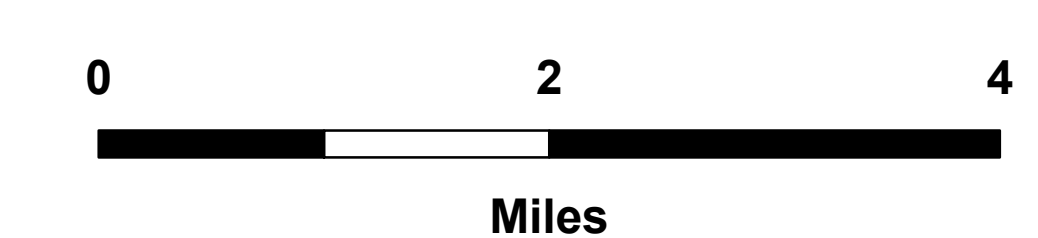
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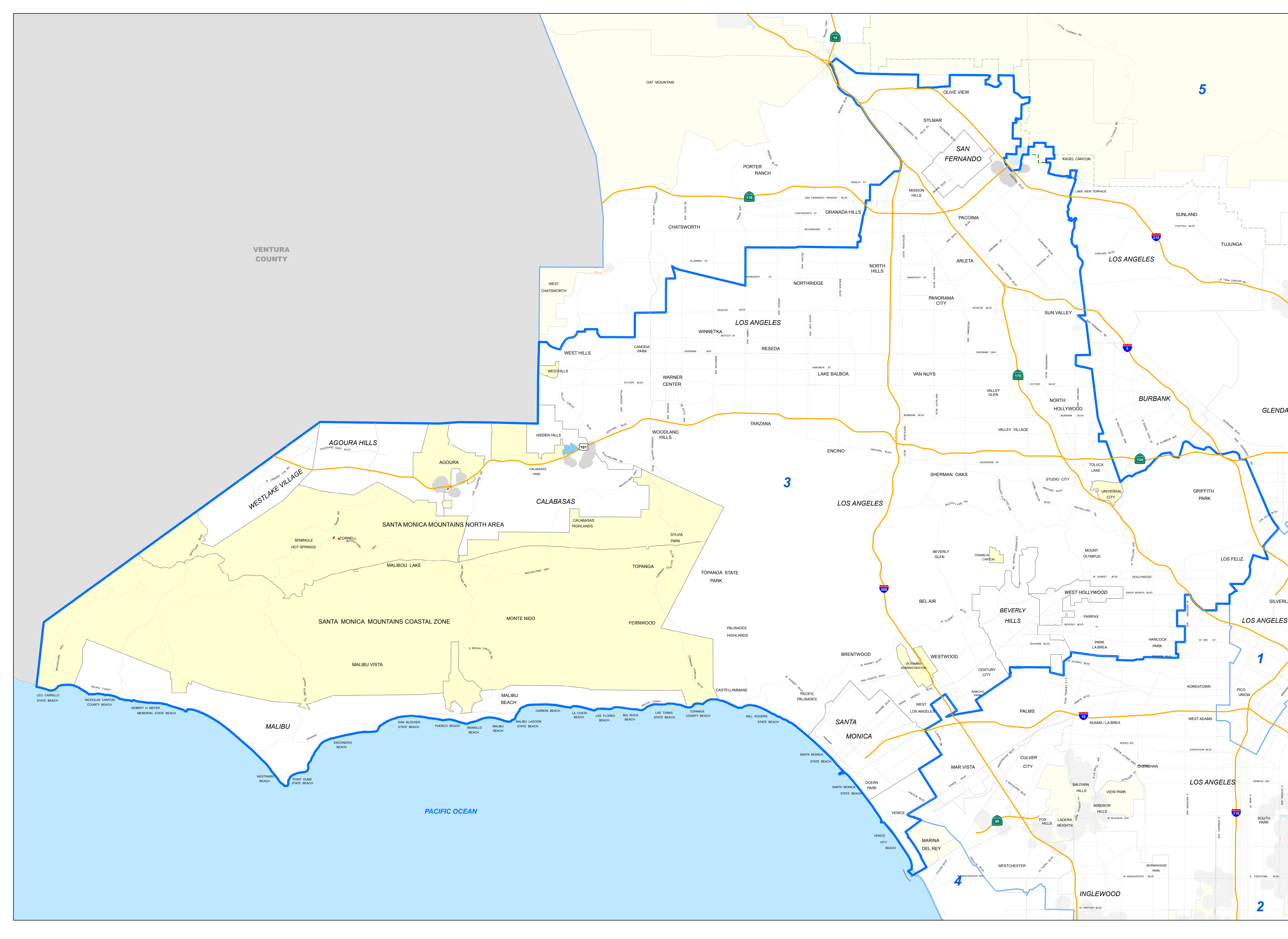
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Los Angeles County - Fourth District

Cannabis-Related Land Uses:

- Retail - Delivery Only
- Testing Laboratories

Featuring 600' and 1,000' Buffers

Base Layers

- Major Road
- Freeway
- 4th Supervisorial District
- Other Supervisorial District
- Incorporated City
- Unincorporated Community
- Other County

Zoning and Buffers

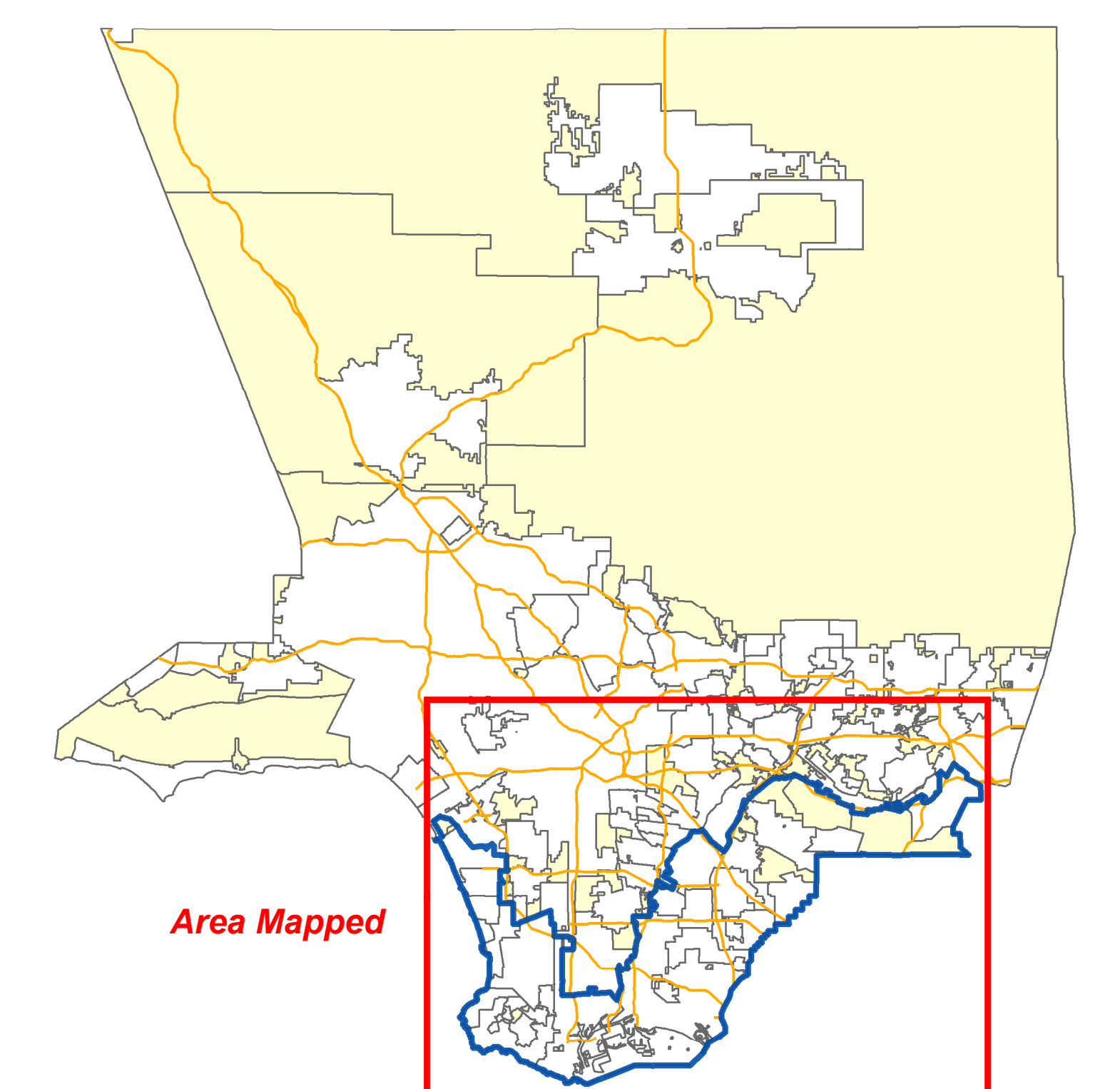
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Vicinity Map

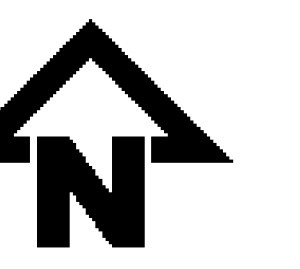
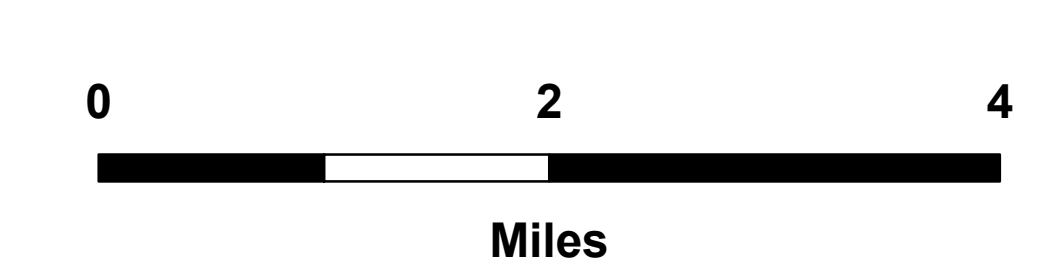


Area Mapped

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Cannabis-Related Land Uses:

- Retail - Delivery Only
- Testing Laboratories

Featuring 600' and 1,000' Buffers

Base Layers

- Major Road
- Freeway
- National Forest
- 5th Supervisorial District
- Other Supervisorial District
- Incorporated City
- Unincorporated Community
- Other County

Zoning and Buffers

Proposed Zones for Cannabis-Related Development

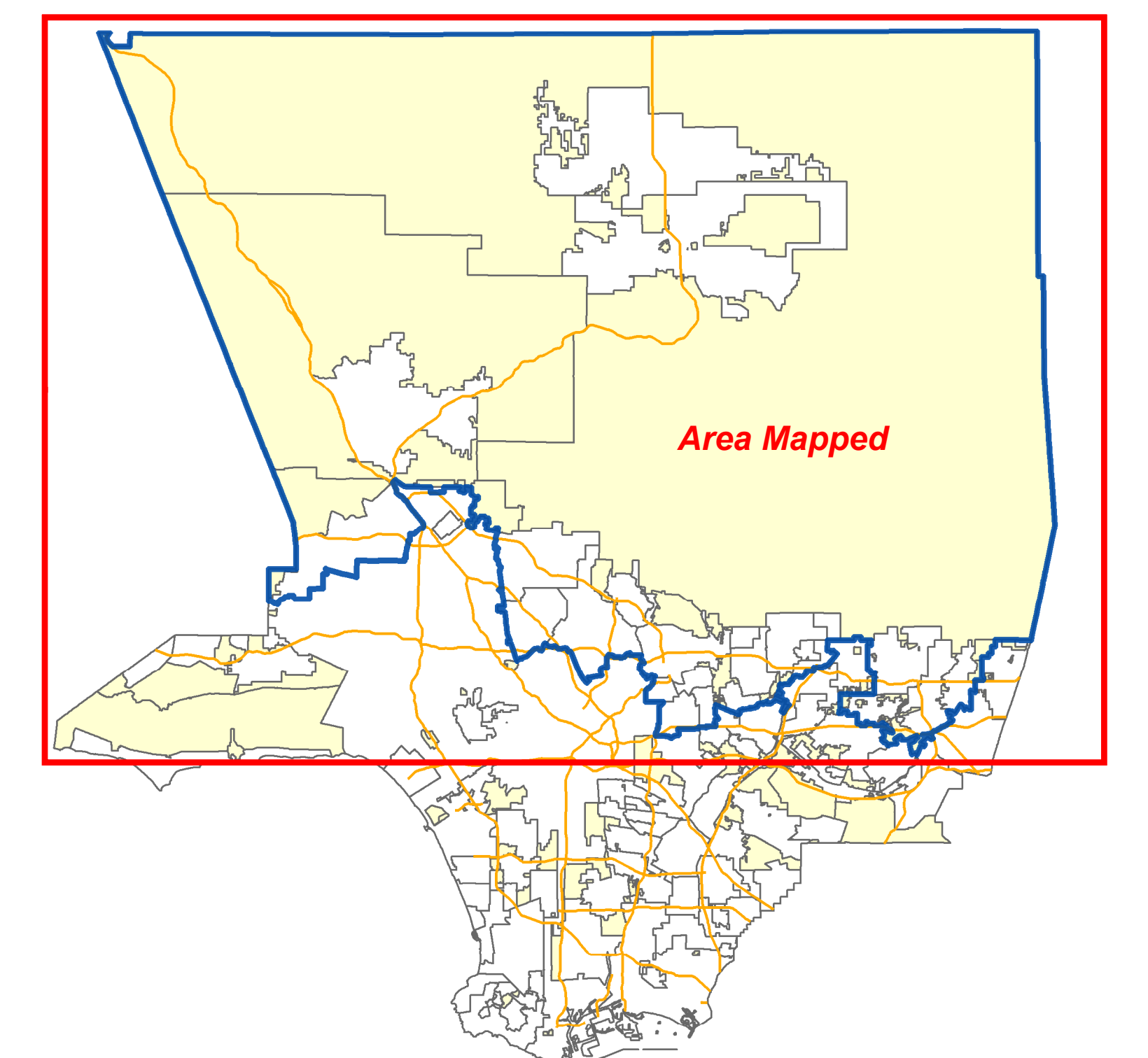
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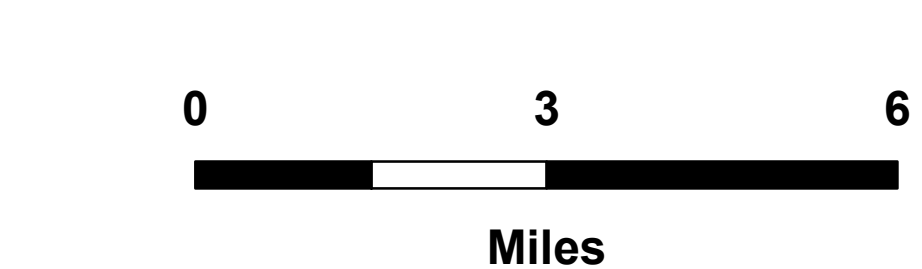
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Vicinity Map



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SET 4

**CULTIVATOR-INDOOR
MANUFACTURER-GENERAL
MANUFACTURER-PROCESSOR
DISTRIBUTOR-GENERAL
DISTRIBUTOR-TRANSPORTER
MICROBUSINESS-NO STORE**

(M ZONES ONLY, SOME BUFFERS)

BY SUPERVISORIAL DISTRICT

Cannabis-Related Land Uses:

- Commercial Cultivator - Indoor
- Distributor - General
- Distributor - Transporter
- Manufacturer - General
- Manufacturer - Processor
- Microbusiness - No Store

Featuring 600' and 1,000' Buffers

Base Layers

- Major Road
- Freeway
- National Forest
- 1st Supervisorial District
- Other Supervisorial District
- Incorporated City
- Unincorporated Community
- Other County

Zoning and Buffers

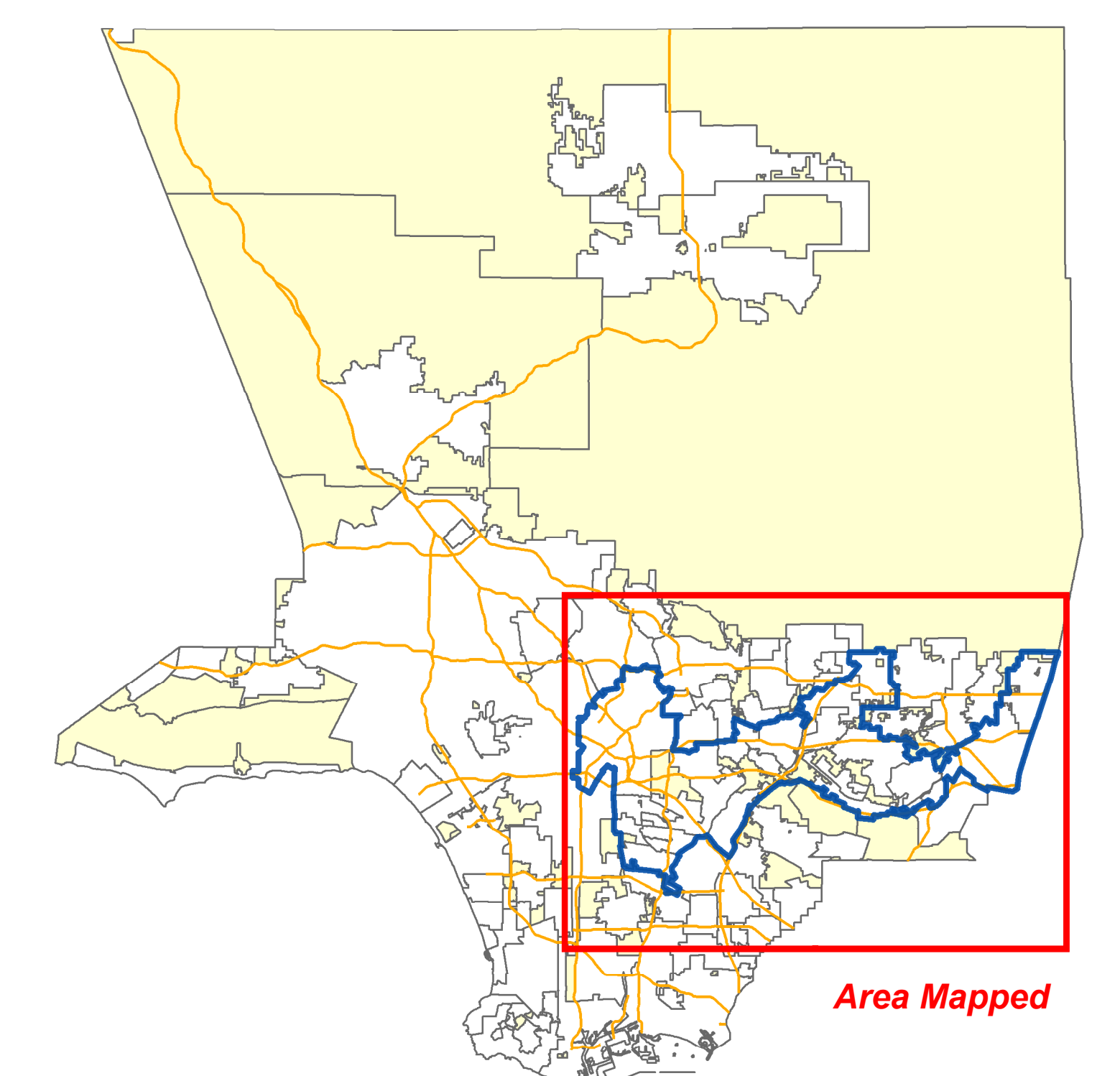
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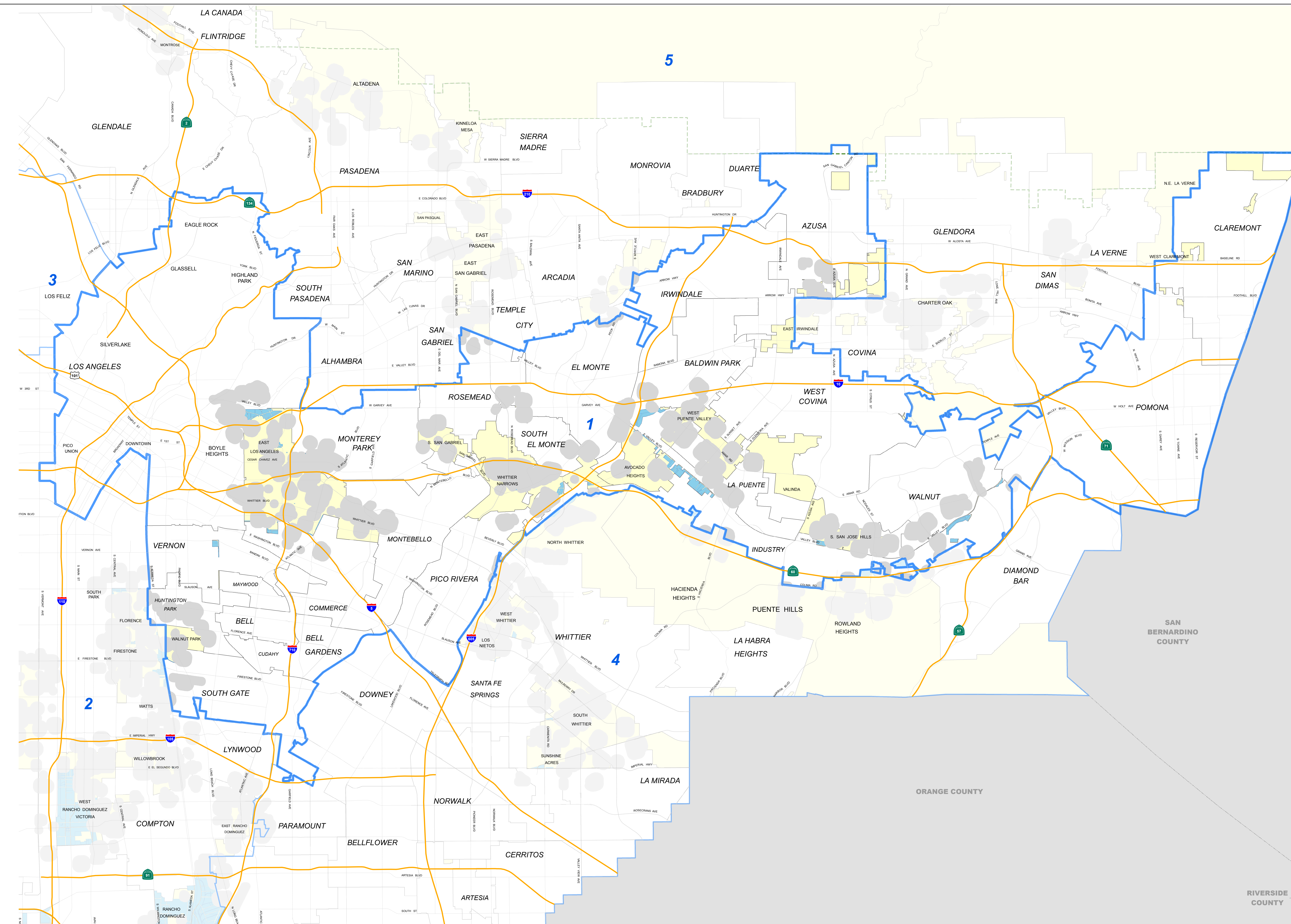
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Cannabis-Related Land Uses:

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- Distributor - General
- Distributor - Transporter
- Manufacturer - General
- Manufacturer - Processor
- Microbusiness - No Store

Featuring 600' and 1,000' Buffers

Base Layers

- Major Road
- Freeway
- 2nd Supervisorial District
- Other Supervisorial District
- Incorporated City
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Zoning and Buffers

Proposed Zones for Cannabis-Related Development

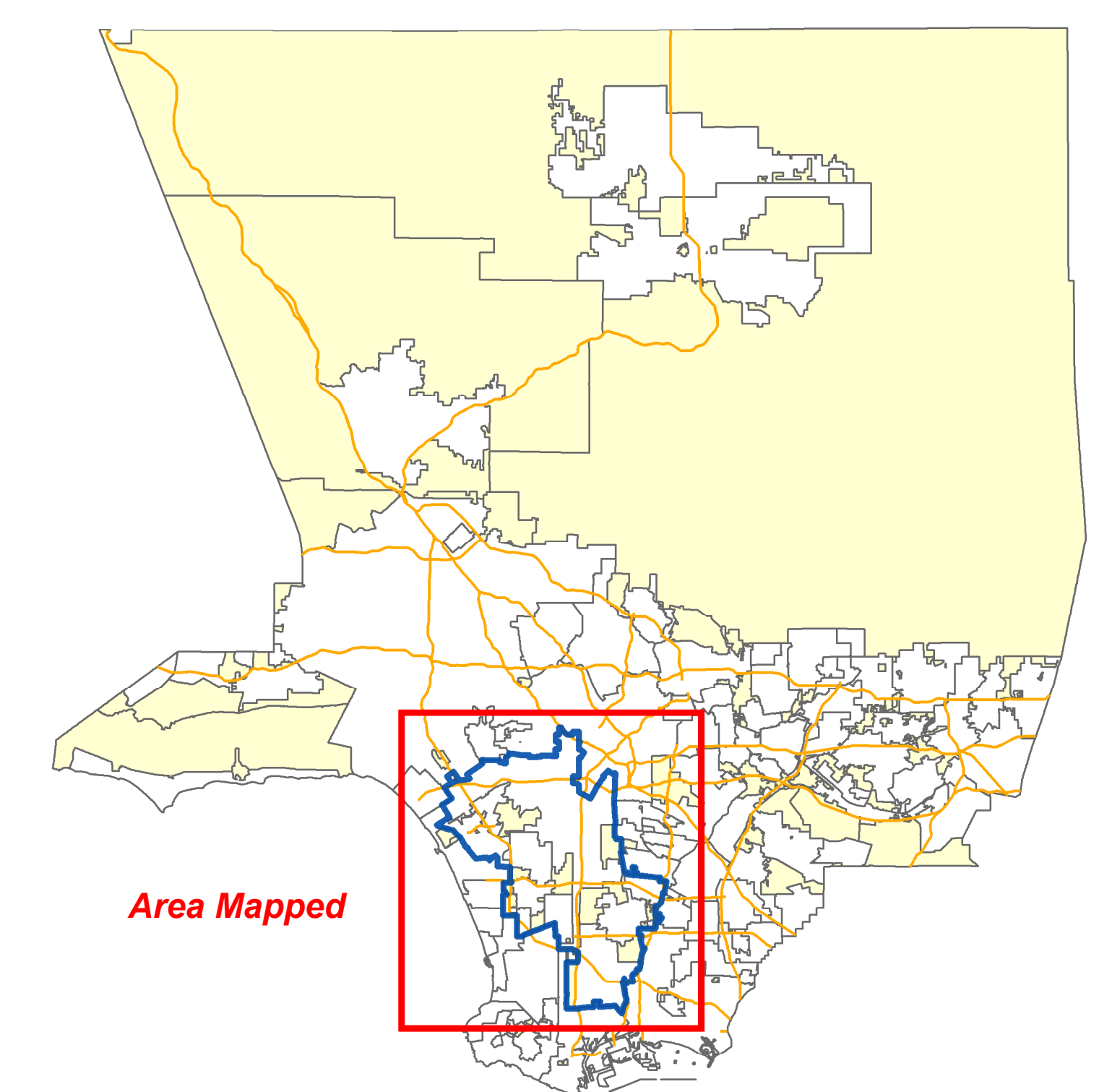
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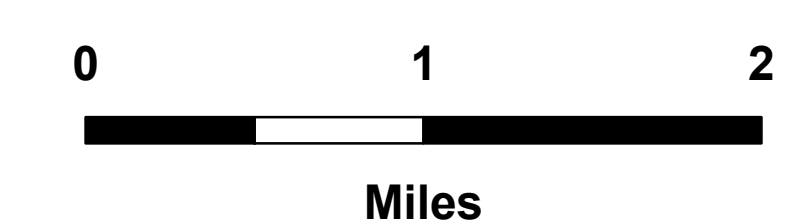
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- School (1,000')

Vicinity Map



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Cannabis-Related Land Uses:

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- Distributor - General
- Distributor - Transporter
- Manufacturer - General
- Manufacturer - Processor
- Microbusiness - No Store

Featuring 600' and 1,000' Buffers

Base Layers

- Major Road
- Freeway
- National Forest
- 3rd Supervisorial District
- Other Supervisorial District
- Incorporated City
- Unincorporated Community
- Other County

Zoning and Buffers

Proposed Zones for Cannabis-Related Development

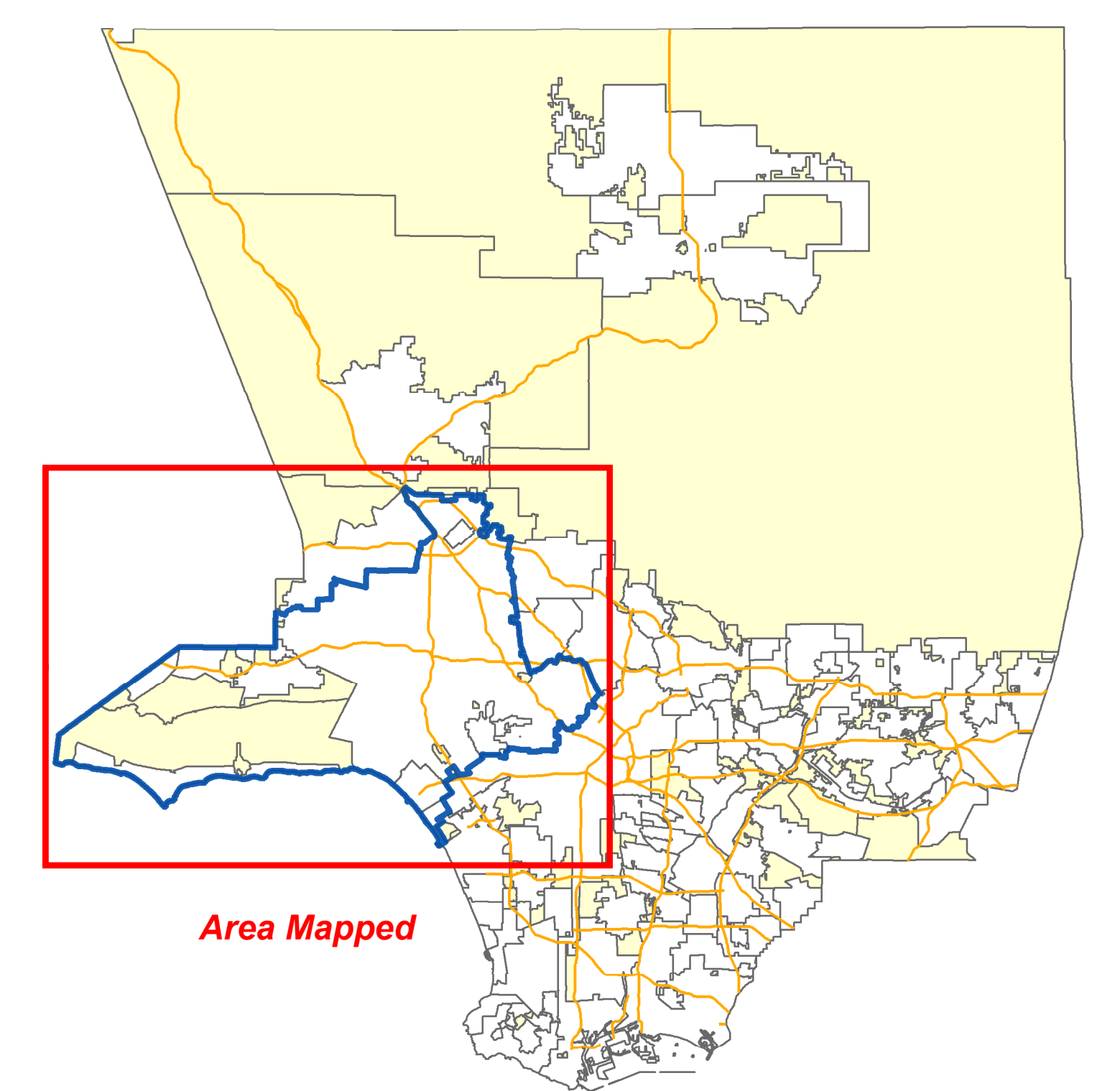
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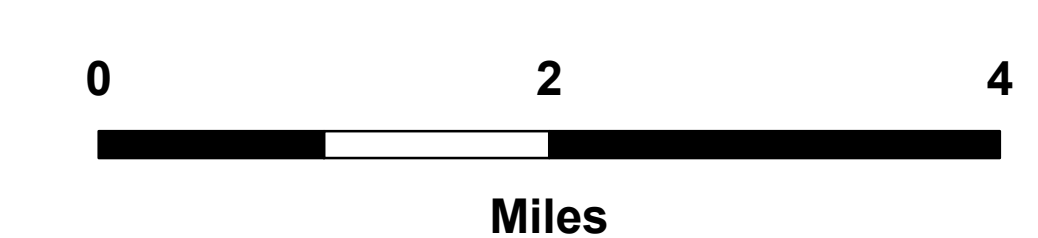
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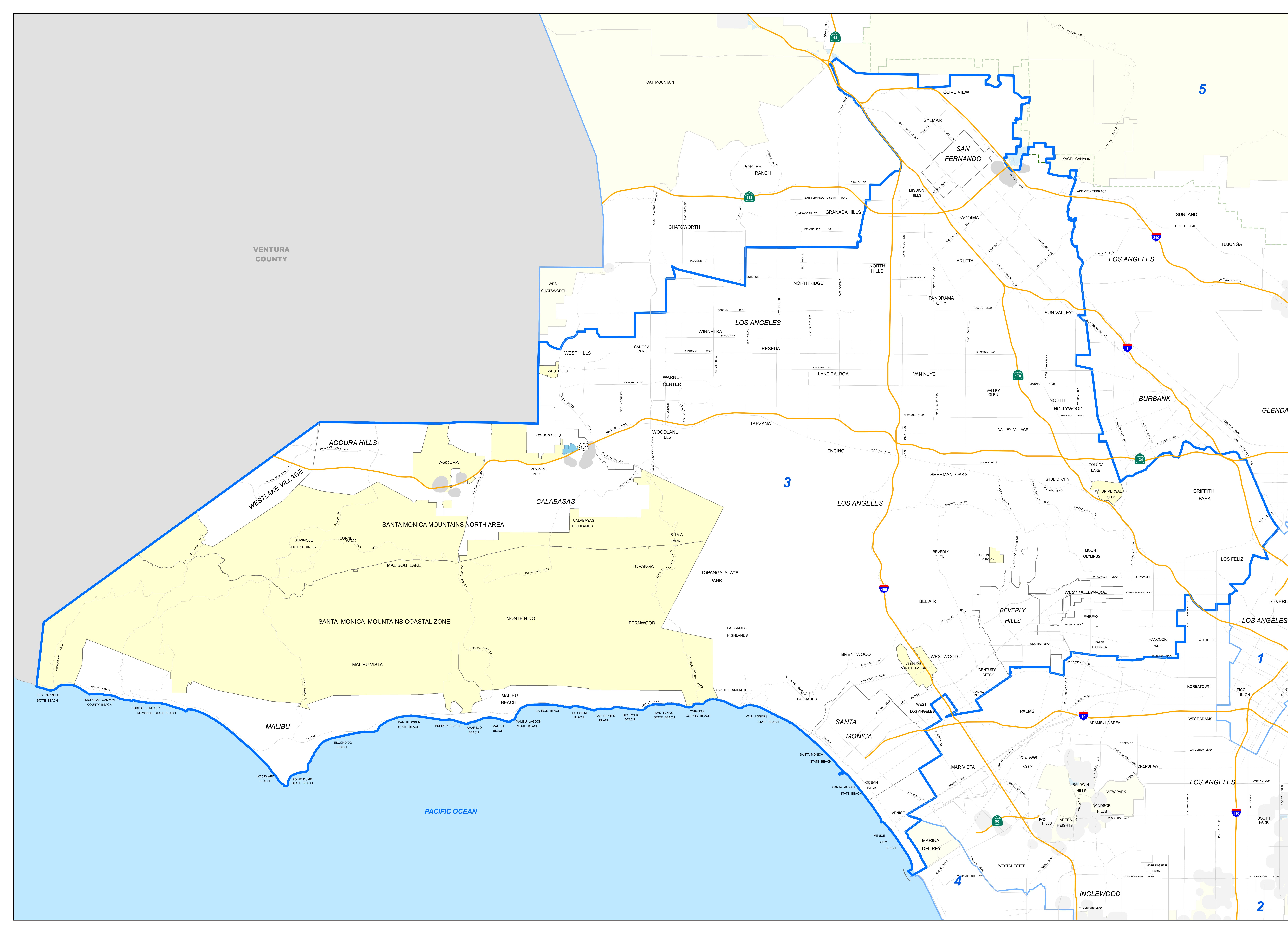
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Los Angeles County - Fourth District

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- Distributor - General
- Distributor - Transporter
- Manufacturer - General
- Manufacturer - Processor
- Microbusiness - No Store

Featuring 600' and 1,000' Buffers

Base Layers

- Major Road
- Freeway
- 4th Supervisorial District
- Other Supervisorial District
- Incorporated City
- Unincorporated Community
- Other County

Zoning and Buffers

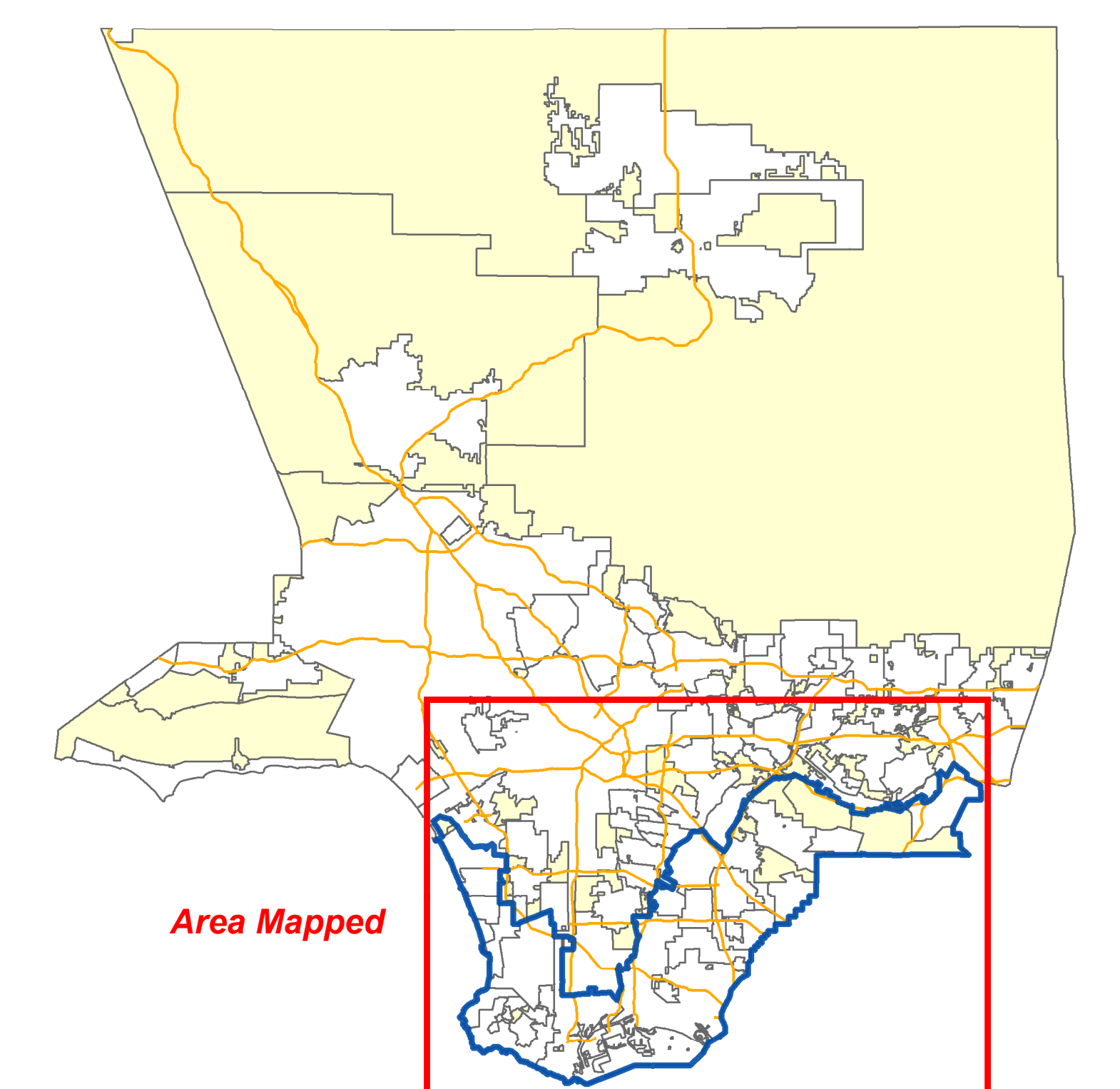
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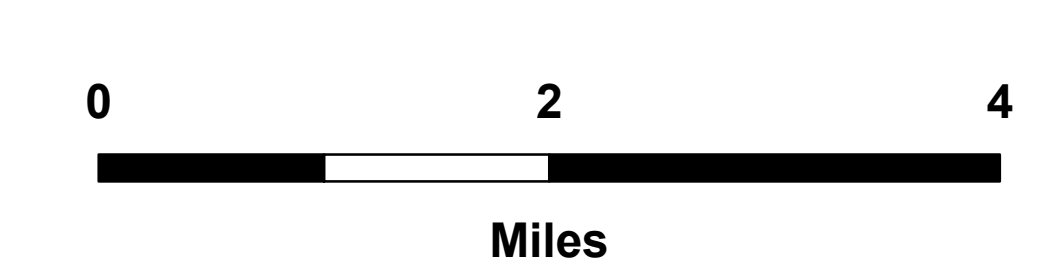


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Cannabis-Related Land Uses:

- Commercial Cultivator - Indoor
- Distributor - General
- Distributor - Transporter
- Manufacturer - General
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- Microbusiness - No Store

Featuring 600' and 1,000' Buffers

Base Layers

- Major Road
- Freeway
- National Forest
- 5th Supervisorial District
- Other Supervisorial District
- Incorporated City
- Unincorporated Community
- Other County

Zoning and Buffers

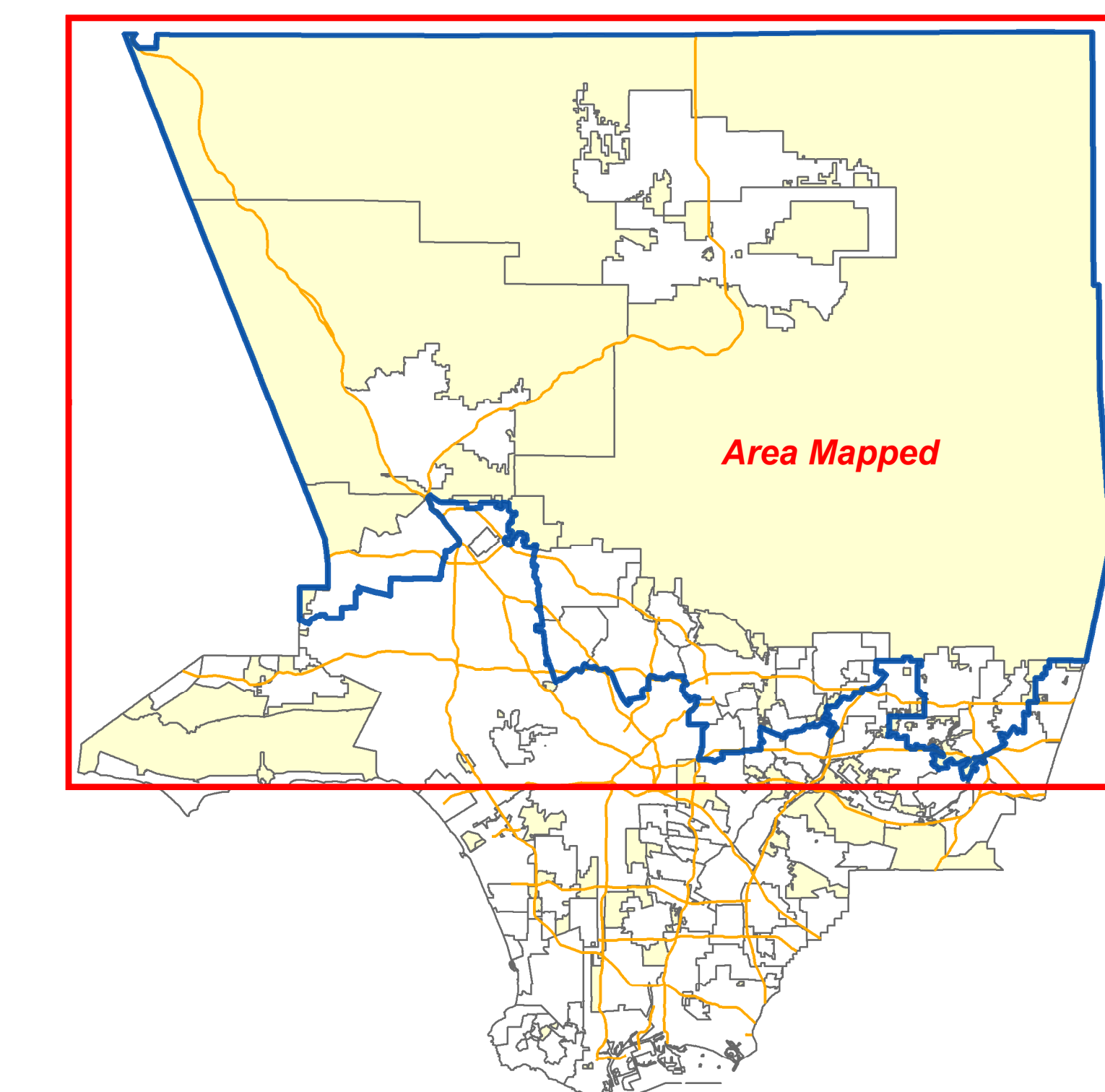
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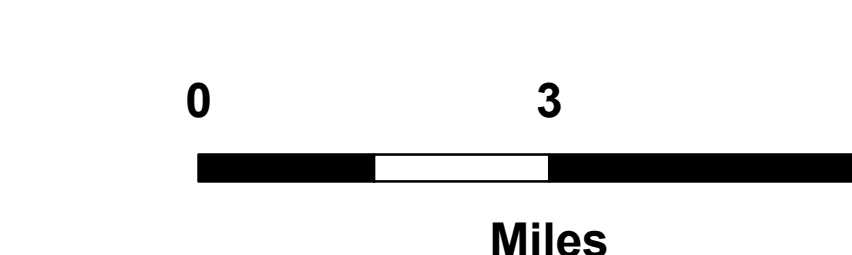
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 - School (1,000')

Vicinity Map



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Map prepared by DRP GIS Section / December 2017

Los Angeles County Cannabis Tax Considerations

**Prepared for Los Angeles County
Chief Executive Office**

Final Report
May 1, 2018

Los Angeles County Cannabis Tax Considerations

Prepared for

Los Angeles County
Chief Executive Office
500 W. Temple St.
Los Angeles, CA 90012

Prepared by

Adam Orens
Miles Light
Jacob Rowberry
Benhur Desta

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Suite 300
Denver, Colorado 80202
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303.551.0607

Table of Contents

- Executive Summary**1

- Analysis of Results**3
 - Demand3
 - Market Size3
 - Retail Tax Projection4
 - Non-retail Tax Projection6
 - Cannabis Businesses and retail sales by jurisdiction7
 - County Tax Rate Options8
 - Licensing10
 - Attached Maps11

- Appendix**13
 - Demand by Supervisorial District13
 - Visitor and Commuter Demand15
 - Demand for Cannabis by Origin, User Type and Market16
 - Product Market Share by Market and Type17
 - Jurisdiction Information18
 - Tax Revenue Estimation19
 - Tax Projection Scenarios – Baseline and Alternatives20
 - Non-retail Tax24

Executive Summary

The Los Angeles County (LAC) Office of Cannabis Management (OCM) retained the Marijuana Policy Group (MPG) to conduct 5-year projections of the size of the regulated cannabis market and potential tax revenues in Los Angeles County. Key findings include:

Cannabis Market Size & Demand

- In *unincorporated* areas of LAC, estimated cannabis sales in the regulated market are \$120 million in 2019 and \$211 million in 2023, based on OCM’s proposed license allocations.
- *Countywide*, estimated cannabis sales in the regulated market are \$1.5 billion in 2019 and \$2.6 billion in 2023.
- Initial year estimates of sales in the LAC regulated cannabis market are based on the demand and market size factors obtained from federal surveys, and adjustments for the elasticity of demand in response to proposed tax rates.
- Regulated sales are expected to grow quickly in the initial 5-year period as the illicit market is absorbed into the regulated market. Sales growth will slow after absorption is complete.

Determining an Appropriate Tax Rate

- For *unincorporated* areas, MPG suggests tax rates should be roughly consistent with high-population incorporated areas, such as LA City, to discourage store clustering near municipal and unincorporated borders.
- For a *countywide* tax, MPG suggests the “optimal” retail tax rate for revenue generation is between 0.5 percent and 1.0 percent for adult-use cannabis, and between 0.25 percent and 0.5 percent for medical cannabis.
- Higher tax rates would push the total effective tax rate above 50 percent (when combined with state taxes), which would discourage consumers from purchasing cannabis in the regulated market, resulting in an overall reduction in tax revenues.

Potential Tax Revenues

- Potential cannabis tax revenues from *unincorporated* taxes are \$10.1 million in 2019 and \$19.7 million in 2023, based on a proposed tax rate of 10.0 percent on adult-use retail, 5.0 percent on medical retail, and 2.0 percent on cultivation, manufacturing and distribution.

Figure 1 Cannabis Projected Sales and Tax Revenue

	2019	2020	2021	2022	2023
Unincorporated Area Taxes (\$M)					
Adult Use Retail (10%)	\$7.75	\$10.26	\$12.78	\$15.27	\$17.68
Medical Retail (5%)	2.11	2.03	1.93	1.83	1.71
Cultivation (2%)	0.11	0.14	0.13	0.13	0.13
Processing (2%)	0.04	0.05	0.05	0.05	0.05
Distribution (2%)	0.09	0.11	0.11	0.11	0.10
Total	\$10.10	\$12.59	\$15.00	\$17.39	\$19.67
Countywide Taxes (\$M) (Includes Uninc Areas)					
Adult Use Retail (0.5%)	\$4.71	\$6.24	\$7.78	\$9.29	\$10.76
Medical Retail (0.25%)	1.32	1.27	1.21	1.15	1.07
Cultivation (0.5%)	0.78	0.97	0.93	0.91	0.88
Processing (0.5%)	0.51	0.64	0.61	0.59	0.58
Distribution (0.5%)	0.83	1.03	0.99	0.96	0.94
Total	\$8.15	\$10.15	\$11.52	\$12.90	\$14.23
Total Tax Revenue	\$18.25	\$22.74	\$26.52	\$30.29	\$33.90
Adjusted Regulated Sales - Uninc. Capture (\$M)					
Adult-Use	\$77.5	\$102.6	\$127.8	\$152.7	\$176.8
Medical	\$42.2	\$40.5	\$38.7	\$36.6	\$34.2
Total	\$119.7	\$143.1	\$166.5	\$189.3	\$211.0
Adjusted Regulated Sales - Countywide (\$M)					
Adult-Use	\$942.7	\$1,248.4	\$1,555.0	\$1,857.9	\$2,151.6
Medical	\$529.8	\$509.2	\$485.7	\$459.3	\$429.7
Total	\$1,472.5	\$1,757.6	\$2,040.7	\$2,317.2	\$2,581.3

- Potential cannabis tax revenues from *countywide* taxes in are \$8.2 million in 2019 and \$14.2 million in 2023, based on a proposed tax rate of 0.5 percent on adult-use retail, 0.25 percent on medical retail, and 0.5 percent on cultivation, manufacturing and distribution.
- Total potential cannabis tax revenues are \$18.3 million in 2019 and \$33.9 million in 2023.

Projection Factors and Assumptions

- The five-year demand projections consider population growth, cannabis use prevalence growth, increased regulated market capture and price trends based on observed data from Colorado and Washington; and official state studies on the California cannabis market.
- The projections assume LAC, the state, and municipalities will efficiently issue cannabis licenses, and that regulated products are accessible and priced competitively with the illicit market (before tax).
- A slower licensing process, less product availability and higher prices may slow these projections from being realized, as consumers may be incentivized to remain with current unregulated suppliers.
- All cannabis retail – storefront or delivery – is treated equally in this analysis. Tax revenue accrues only to jurisdictions that allow businesses to locate within their borders.

Additional Findings

- There are currently 0.48 retail outlets proposed per 10,000 population in LAC. This is similar to Seattle, WA but a relatively light footprint when compared to Denver, CO and Portland, OR.
- Most population centers, including LA City, Long Beach and LA County, have- or will soon implement cannabis regulations and tax policies, which indicates that these projections should hold if modest amounts of new licenses are added.
- Large amounts of new retail licenses added near existing unincorporated locations may alter these projections.
- Cultivation and manufacturing operations usually locate where input costs are low, and rural areas outside LAC may have less expensive offerings.
- If outside regions become more attractive than LAC, then annual non-retail tax revenue will decline more quickly than retail revenues, as non-retail cannabis businesses can locate elsewhere in the state and transport their products to urban markets relatively easily.

ANALYSIS OF RESULTS

This report is organized in two sections: an analysis of results, and an appendix that provides more detailed calculations and discussion of methodology.

The tax projections contained herein are based on a quantification of annual cannabis usage (demand) among:

- LAC residents
- Daily commuters; and
- Domestic and international visitors.

These projections rely on the assumptions that:

- Historical market growth rates follow observed trends in Colorado and Washington;
- LAC, the state, and municipalities will efficiently issue business licenses; and
- Regulated products are accessible and priced competitively with the illicit market (before tax).

A slower licensing process, less product availability and higher prices may slow these projections from being realized, as consumers may be incentivized to remain with current unregulated suppliers.

- **Demand.** Utilizing marijuana use prevalence data from the National Survey on Drug Use and Health (NSDUH), MPG estimates the 2018 total number of past-month and past-year marijuana users among LAC residents and regular commuters aged 21 and over (2.2 million). Figure 1 provides resident, commuter and visitor cannabis consumers and demand. LAC demand is expected to be approximately 224 metric tons this year. For additional detail on LAC demand please see the attached Map 1 on p. 7 and Appendix Figures 1 through 4.

**Figure 1.
Cannabis Demand
in Los Angeles County, 2018**

Note:

Numbers may not add due to rounding.

Includes resident, visitor and commuter demand. See appendix for detailed calculations.

Source:

Substance Abuse and Mental Health Administration – NSDUH State and Sub-state estimates, 2012-2014. American Community Survey, U.S. Census Bureau. California Department of Finance 2018 Demographic Forecasts. State of California Employment Development Department.

Demand Source	Past Year/Month Adult Consumers	Annual Demand (Metric Tons)
Los Angeles County		
Supervisorial District 1	380,075	35.9
Supervisorial District 2	485,042	47.1
Supervisorial District 3	486,925	44.4
Supervisorial District 4	396,277	38.2
Supervisorial District 5	395,323	36.4
<i>Net 'Commuter' Demand</i>	55,133	5.3
Total Resident Demand	2,198,775	207.4
Visitor Demand (Domestic and International)		17.0
Total Demand (Metric Tons)		224.4

- **Market size.** Tax projections are also based on the share of the market captured in regulated medical and adult-use retail outlets; and the price of regulated cannabis products. Market capture and pricing information shown in Figure 2 is obtained from observed data in the Colorado and California markets.

**Figure 2.
Cannabis Market Size
in Los Angeles County, 2018**

Note:
Numbers may not add due to rounding.
Includes resident, visitor and commuter demand. See appendix for detailed calculations.
Source:
MPG, LLC from observed Colorado and Washington data.

Metric	2019 Estimate
Total Demand (MT)	224.4
Total Regulated Market Capture	61.9%
Unregulated Market Capture	38.1%
Regulated Market Demand (MT)	
Adult-Use (30.4%)	68.1
Medical (31.5%)	70.7
Total	138.8
Price/gram (\$)	
Adult-Use	\$15.57
Medical	\$8.44
Los Angeles County Market Size (\$ Million)	
Adult-Use	\$1,060.8
Medical	\$596.1
Total	\$1,656.9

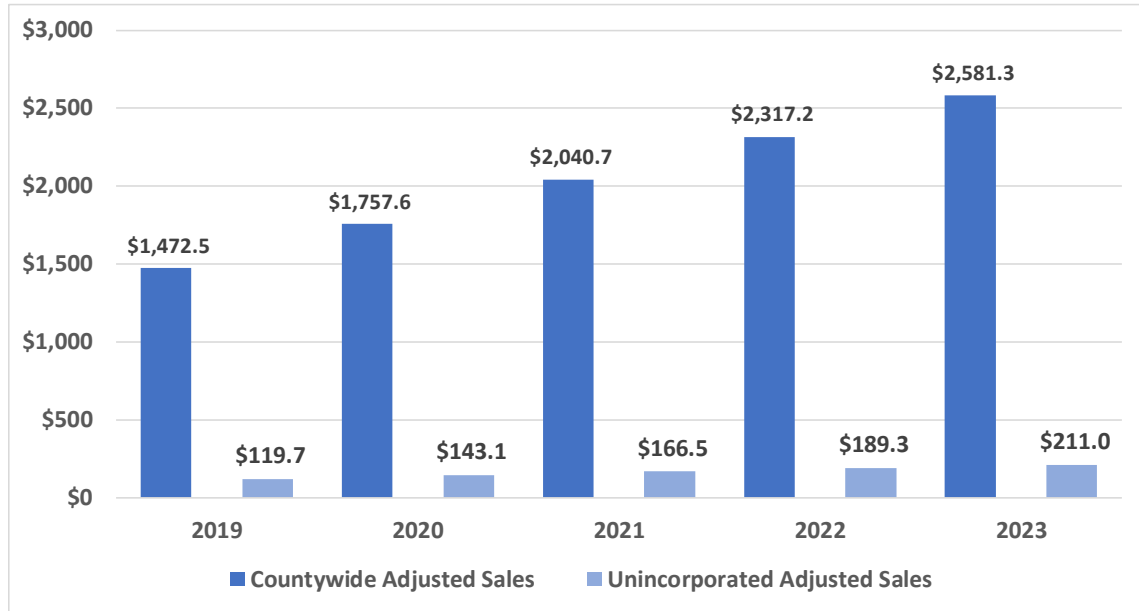
Total regulated market size in LAC in 2019 is estimated at about \$1.66 billion, assuming the regulated market captures about 60 percent of demand in 2019. Appendix Figures 4 and 5 provide additional detail. Price differences between adult use and medical cannabis is widely observed in other states. It is primarily due to the customer purchasing products in larger quantities, and competition to lock in customers to member pricing plans.

- **Retail tax projection.** Retail tax projections in Figure 3 on the following page are based on a countywide tax rate of 0.5 percent on adult use and 0.25 percent on medical purchases and 10 percent on adult use and 5 percent additional tax on purchases in the unincorporated area.

Initial year estimates of sales in the LAC regulated cannabis market are based on the demand and market size factors presented above, adjusted for the elasticity of demand and tax rates, and an even allocation of sales among retail licenses (487 retail licenses countywide). Unincorporated LAC would capture 8 percent of the market in this scenario.

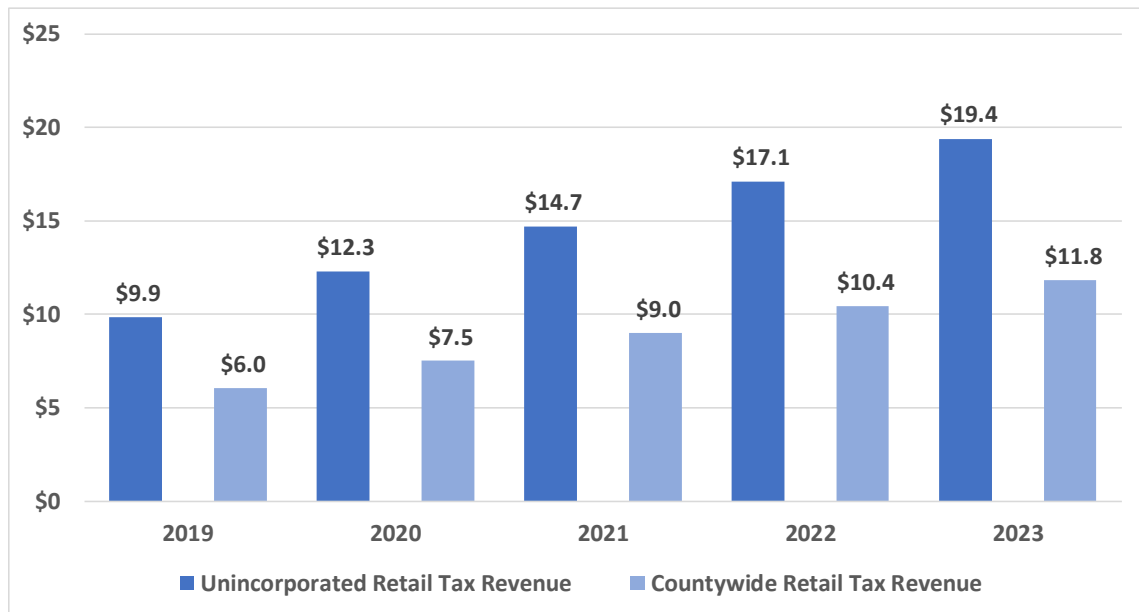
The five-year projection considers population growth, cannabis use prevalence growth, increased regulated market capture and price decline based on official sources and observed data from Colorado and Washington.

Figure 3.
Los Angeles County Retail Cannabis Sales, 5-year Projection (\$ Million) - Baseline



Source: MPG LLC.

Figure 4.
Los Angeles County Retail Cannabis Tax 5-year Projection (\$ Million) - Baseline



Source: MPG LLC.

Regulated sales are expected to grow quickly in the initial 5-year period as the illicit market is absorbed into the regulated market. LAC can expect total regulated sales of \$1.5 billion after adjusting for the elasticity of demand and tax rates; about \$120 million in sales in the unincorporated area and about \$16 million in cannabis retail tax. About \$10 million of this

revenue would come from the 10 percent unincorporated retail tax. This figure would grow to \$31 million in 2023, assuming LAC maintains its market share. Appendix figures 7-11 show tax projections under two alternate scenarios: (1) where LAC market share is diluted due to additional licenses issued in municipalities; and (2) where LAC retailers secure a larger market share due to locational and other factors.

- Non-retail taxes.** Non-retail business taxes on gross receipts are a common form of business tax. LAC currently charges gross receipts taxes on businesses located in the unincorporated county. It is a relatively minor source of county revenue compared to property, sales and use taxes. LAC is evaluating a 2.0 percent unincorporated-only gross receipts tax and a 0.5 percent rate on business located county wide. Businesses located in the unincorporated area will pay a gross rate of 2.5 percent.

**Figure 5.
Potential
Gross Receipts Tax –
Los Angeles County, 2019**

Note:
Numbers may not add due to rounding.
Source:
MPG, LLC,
State of California SRIA documents.

Tax Type	Unincorporated Tax Revenue (2.0%)	Countywide Tax Revenue (0.5%)
<i>Cultivation Tax</i>	\$ 111,937	\$ 780,000
<i>Manufacturing Tax</i>	\$ 40,052	\$ 511,667
<i>Distribution Tax</i>	\$ 91,875	\$ 828,500
Total Tax Revenue	\$ 243,865	\$ 2,120,167
Grand Total		\$ 2,364,032

Non-retail taxes are proposed on intermediate cannabis industries such as cultivation, manufacturing and distribution. LAC is a consumer center, but its share of these intermediate industries is unknown and will remain in formation stages for 2-3 years.

MPG estimated the statewide market size for cultivation, manufacturing and distribution using several state-required regulatory economic impact documents (SRIAs) and direct research. MPG allocated a portion of the statewide cultivation, distribution and manufacturing economic activity to LAC and further to the unincorporated county.

MPG market size estimates of the state and LAC indicate LAC will capture 32 percent of retail sales and a similar distribution figure. State SRIA studies indicate LAC is home to 5 percent of current statewide cultivation activity and 7 percent of manufacturing activity. MPG estimates these rates will modestly increase to 10 percent. Under this scenario LAC would generate about \$2.4 million in gross receipts revenue. A high-end estimate, based on LAC producing as much as consumption (32 percent capture of cultivation) would yield about \$7 million in taxes. Please see the Appendix (p. 23) for a detailed description of the calculations.

Unlike retailers, manufacturers, cultivators and distributors are free to locate operations where conditions are financially advantageous within California. Cultivators will choose to locate where there is inexpensive land, industrial space, water and electricity, and LAC will be at a disadvantage compared to less-expensive, more rural areas. Manufacturers generally prefer to be near the suppliers of “feedstock” (plant material). Logically, these operators would prefer to co-locate facilities to minimize transport/storage complications.

Cannabis businesses and retail sales by jurisdiction. Tax projections are further informed by the number of retail licenses (storefront and delivery) that are issued by LAC and cities. Figure 6 below shows the types of cannabis businesses allowed in LAC communities. Please see attached Map 2 and Appendix Figure 6 for detail on cities allowing cannabis retail and delivery. Commercial cannabis is not currently allowed in unincorporated LAC, this study uses a scenario, based on OCM draft policies to estimate potential tax revenues if draft policy is adopted.

**Figure 6.
Cannabis Business Locations,
Los Angeles County, 2018**

Note:

* Non-retail includes cultivation, manufacturing, processing and distribution.

** Malibu permits medical retail/delivery only and no other commercial operations.

Source:

MPG, LLC from LAC and city sources.

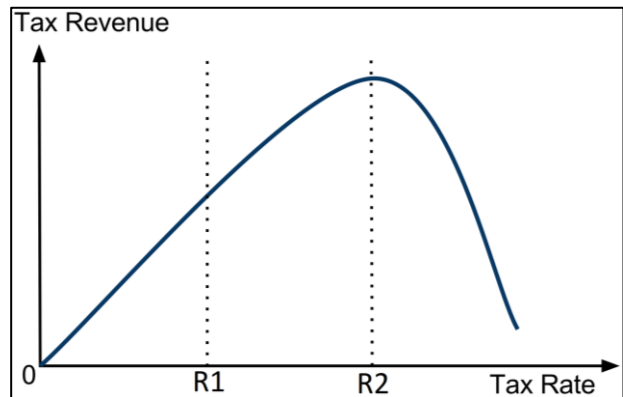
Retail and Non-retail* Adult-use and Medical	Retail and Non-retail Medical	Non-retail
Culver City	Bellflower	Baldwin Park
Long Beach	Huntington Park	Bell
Los Angeles	Malibu**	Carson
Maywood	Santa Monica	Cudahy
Unincorp. LAC		El Monte
West Hollywood		Lancaster
		Lynwood

There are 498 retail licenses expected in LAC as of March 2018. Most licenses (487) will be available in jurisdictions that permit adult-use and medical cannabis, with 40 expected to be in unincorporated areas per OCM draft policy. MPG allocated equal sales to each retail license regardless of location; or whether it is a physical store or delivery service.

Many factors will contribute to retailer and delivery service success, including location, branding and pricing. It is unknown whether physical locations or delivery services will capture more market share. Retail sales volume is shifting towards e-commerce in general and cannabis retailing is subject to the same trends and consumer preferences as other consumer goods.

- **County tax rate options.** Choosing low tax rates, represented as rate R1 in the figure below, will encourage more legal sales, but will yield less revenues. High rates increase revenues – up to point R2 – but rates too high will encourage illegal sales, leading to less revenues.

Figure 7.
Revenues versus Total
Tax Rate in Los Angeles County
(Exposition Only)



The optimal choice must strike a balance between revenue goals, legal market sales goals and other objectives like community public health. LAC has some choice of tax rate, but the choice is encumbered by several other taxing entities. Aggregate tax rates are 38.7 percent for adult use, and 23.95 percent for medical. However, since two taxes are excise taxes, the effective rate is 40.55 percent and 25.8 percent, due to compounding tax effect between the wholesale and retail levels.

Figure 8 shows cannabis tax rates in western states with adult use and medical markets.

Figure 8.
Cannabis Tax Rate Comparison

Comparison - Existing Tax Rates for Cannabis					
Los Angeles, CA	Adult-Use	Medical	Denver, CO	Adult-Use	Medical
Cultivation State Excise / Production Tax	3.70%	3.70%	Excise / Production Tax	15.00%	0.00%
Distribution State Excise Tax	15.00%	15.00%	State Sales Tax	0.00%	2.90%
General Sales Tax	9.50%	0.00%	State Cannabis Sales Tax	15.00%	0.00%
LA City/Uninc. County Cannabis Tax	10.00%	5.00%	Local Cann Sales Tax	3.50%	3.50%
LA County MJ Sales Tax	0.50%	0.25%	Local Sales Tax	3.65%	3.65%
Total Tax	38.70%	23.95%	Total Tax	37.15%	10.05%
Effective Tax Rate	40.55%	25.80%	Effective Tax Rate	44.65%	10.05%
Seattle, WA	Adult-Use	Medical	Las Vegas, NV	Adult-Use	Medical
Retail Sales Tax	10.10%	0.00%	Production Tax	15.00%	15.00%
Special Cannabis Sales Tax	37.00%	37.00%	State Retail Cannabis Tax	10.00%	0.00%
Total Tax	47.10%	37.00%	State/County Sales Tax	8.25%	3.55%
Effective Tax Rate	47.10%	37.00%	Total Tax	33.25%	3.55%
Portland, Oregon	Adult-Use	Medical	Alaska	Adult-Use	Medical
State Cannabis Tax Rate	17.00%	0%	Special Cannabis Sales Tax	\$50/oz	0%
Local Cannabis Tax Rate	3.00%	0%	Total Tax	20.00%	0%
Total Tax	20.00%	0.00%	Effective Tax Rate	20.00%	0%
Effective Tax Rate	20.00%	0.00%			

Note: Numbers may not add due to rounding.
Effective tax rate is slightly higher in some states due to wholesale level compounding taxes.

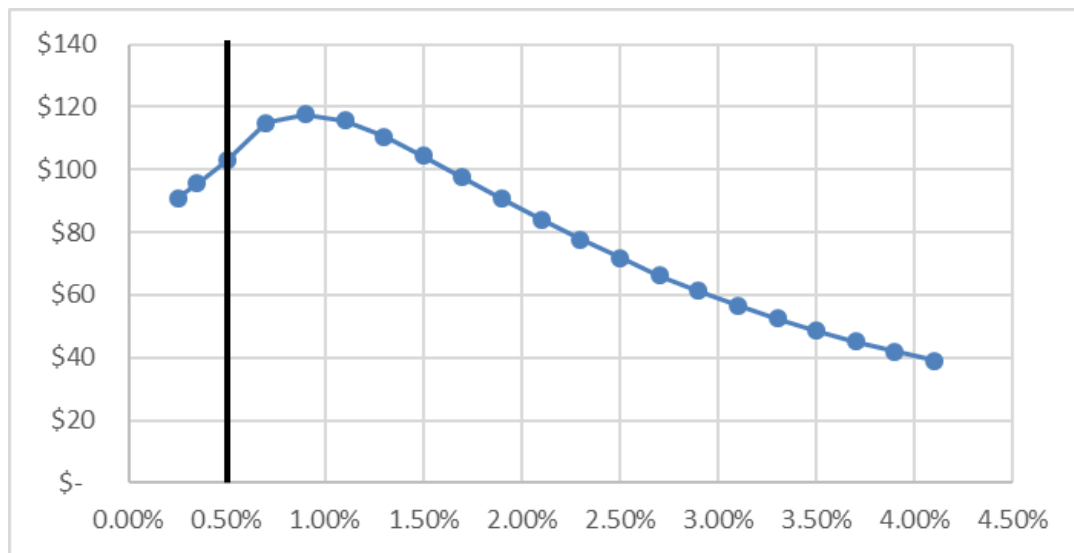
Source: MPG LLC from public sources.

Based on MPG tax revenue estimates, tax yields will fail to materialize, and consumers will avoid the regulated market if the aggregate tax rate is near or above 50 percent in LAC. At high rates, consumers will increasingly choose outlets from lower tax cities within California, or they will revert to underground outlets. This is a lesson learned from Washington State in 2014. At that time, Washington regulators were advised to apply three 25 percent tax rates along different points of production, leading to an effective tax rate of 90 percent. Adult use sales did not show sustained growth until the tax rate was below 50 percent.

Based on current tax rates within California and Los Angeles area municipalities, the feasible county rate options for incorporated areas in LAC are between 0 percent and 4.5 percent. In unincorporated areas, rate options are between 0 percent and 14.5 percent. Higher tax rates would push the effective tax rate above 50 percent and incentivize purchases outside the regulated market. MPG suggests a tax-rate regime that will ensure rates are roughly consistent between high-population incorporated areas, such as LA City, and unincorporated areas to discourage store clustering near municipal/unincorporated borders.

At current proposed rates, the Net Present Value (NPV)¹ of tax revenues between 2019-2023 will be \$103 million, assuming a discount rate of 5 percent. If tax rates are increased from 0.5 percent, then revenues increase. At a 1.0 percent rate, total NPV revenues are just below \$120 million. However, as rates continue to increase, demand shrinks as consumers find alternate, untaxed sources, and revenues ultimately decline. At a 4.25 percent tax rate, NPV falls as low as \$40 million.

Figure 8.
2019-2023 Tax Revenue Net Present Value by Tax Rate - \$ Million



Source: MPG LLC.

¹ Net present value is used to compare future revenue streams over time. NPV is a means to convert a series of future revenues into a single number that represents the value in current dollars, for instance, 5-year revenues at 0.5 percent tax rate are worth \$103 million today, and 5-year revenues at a 1 percent tax rate are worth \$120 million today.

To summarize, the “feasible” rate is between 0 percent and 4.5 percent, but currently, the “optimal” rate for revenue generation in LAC is between 0.5 percent and 1.0 percent for recreational cannabis, and 0.25 percent and 0.5 percent for medical. LAC is expected to apply an extra 10 percent for adult use and 5 percent for medical in unincorporated areas.

- Licensing.** There are 9 incorporated cities and the unincorporated area that will be allowing regulated cannabis retail activity (adult use and medical). About 52.4 percent of the LAC population that will have access to marijuana retail operations in their community. There are 498 retail licenses expected in LAC (medical only and dual) under currently stated retail license limits in areas that have opted to allow cannabis retail establishments. Figure 9 shows a comparison of retail outlet density in four urban counties that have adult-use and medical cannabis.

Figure 9.
Retail Licenses
per 10,000
Population,
County Comparison

Note: Numbers may not add due to rounding.
Source: MPG, LLC from public sources.

County	Total Licensed		Population per Store	Outlets per 10,000 population	Allow delivery
	Adult Use Retail Outlets	Population			
Denver County, CO	203	682,545	3,362	2.97	N
King County, WA (Seattle)	113	2,079,550	18,403	0.54	N
Multnomah, OR (Portland)	155	790,294	5,099	1.96	Y
LA County, CA (<i>proposed</i>)	487	10,241,278	21,029	0.48	Y

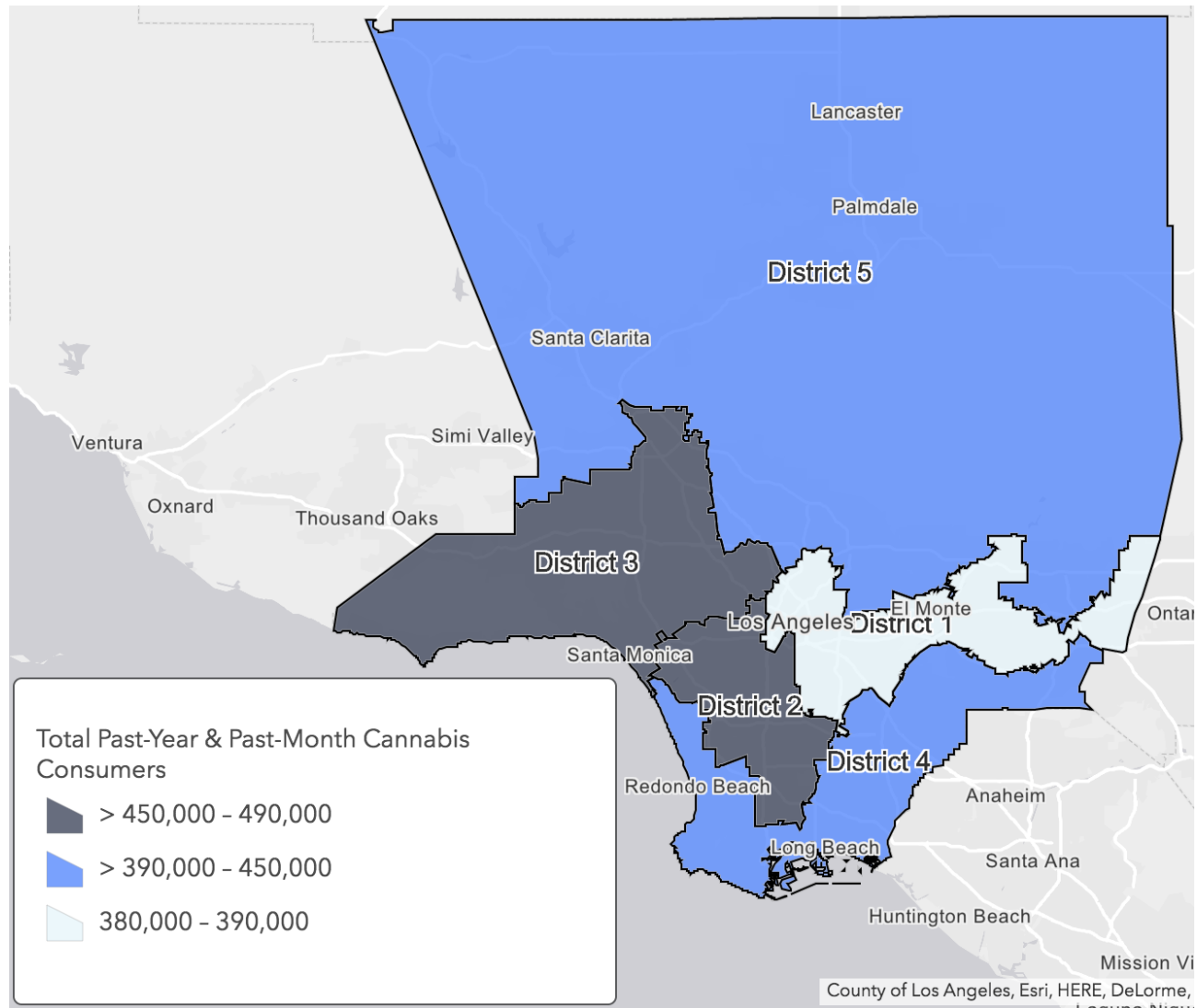
As shown above, the proposed retail footprint in LAC is 0.48 retail outlets per 10,000 population. This is a relatively light footprint when compared to Denver, CO and Portland, OR areas. The data indicate that jurisdictions in LAC will have capacity to add more retail locations without overly diluting the market. As observed in Colorado and Washington, the illicit market is reduced when cannabis users have convenient access to products, and a competitive market places downward pressure on pricing.

LAC should monitor the amount of retail licenses in the incorporated and unincorporated areas going forward to allow for adequate access, but not to oversupply the market and risk failing retail outlets. The data above show that LAC will likely be able to add more retail locations beyond the initial 487 countywide and 40 in unincorporated areas.

A short supply of retail licenses could slow sales absorption into the regulated market, as witnessed in Washington in 2014-2015. In Washington, retail licenses were allocated via lottery and many winners did not open facilities directly, but held them for sale in a secondary market, slowing retail facility opening across the state. This led to high prices, long lines and consumer avoidance of the regulated market. LAC and municipalities should monitor the market going forward to potentially add licenses as needed.

**Map 1.
Cannabis Consumers by
Supervisorial District**

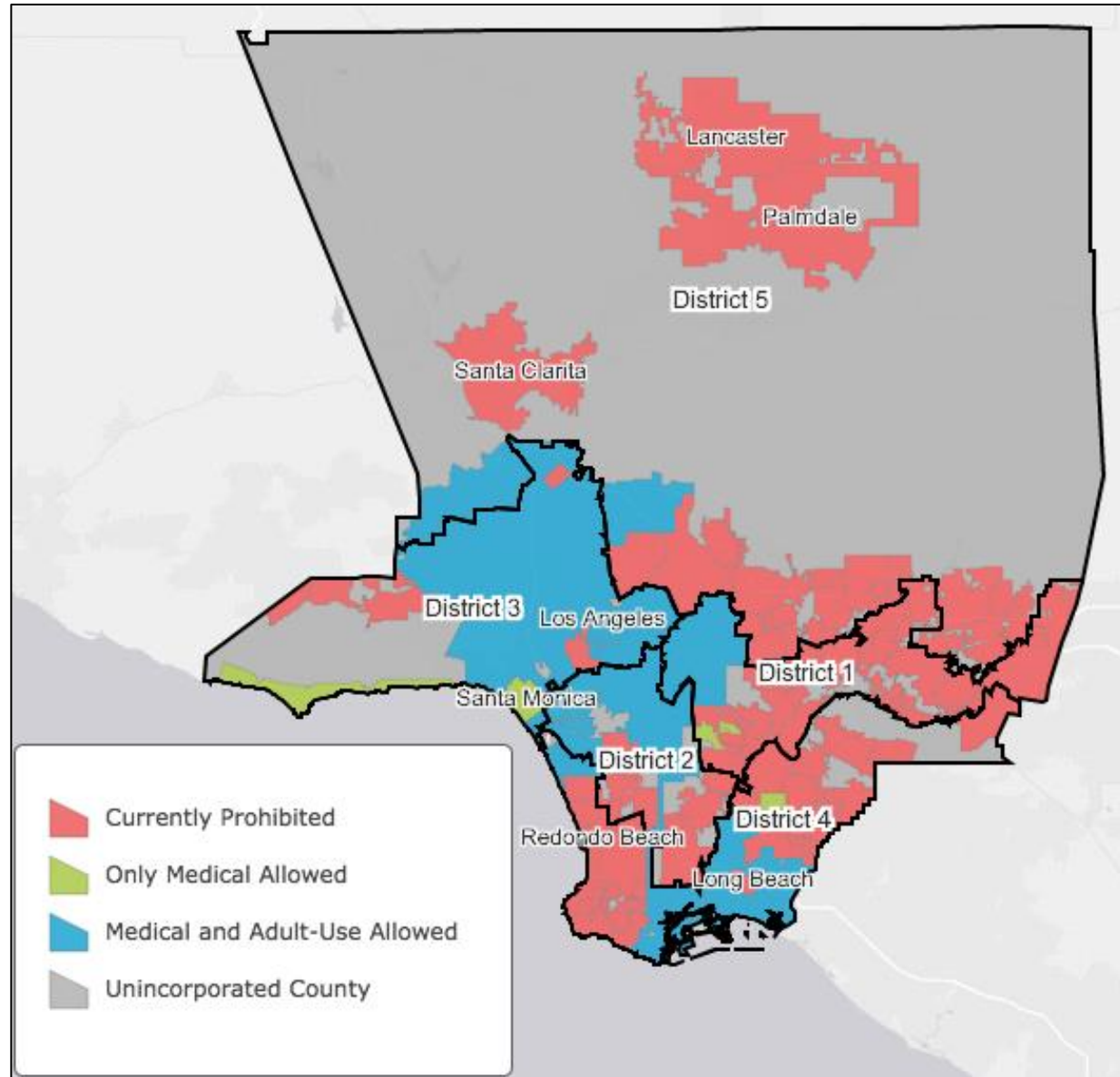
Source:
MPG, LLC, NSDUH, Los Angeles
County.



**Map 2.
Cannabis Retail
Outlet Location by
Jurisdiction**

Note:
Map show whether municipalities allow cannabis retail outlets to locate their operations in their community. Certain cities, like Santa Clarita, Avalon, Beverly Hills and other municipalities allow deliveries to be completed in their city only. See Appendix Figure 5 for a complete list.

Source:
MPG, LLC, Los Angeles County.



Appendix

Los Angeles County Tax Considerations

This appendix contains detailed information and calculations that support market size, demand and tax projections in the attached report.

Demand by Supervisorial District

The following figures break down total resident demand by the five supervisorial districts within the county. MPG utilized local-level information from the NSDUH to provide detailed Los Angeles County cannabis prevalence use figures across each supervisorial district. MPG also used census-tract data from the American Community Survey (ACS) to quantify age 21+ population by supervisorial district. These figures below display that in each supervisorial district, about 15 percent of total cannabis users consume cannabis 21+ days each month, and account for roughly 85 percent of total demand.

Appendix Figure 1A.
Adult Marijuana Users and Total Demand among LAC Supervisorial District 1, 2019

Frequency of Use	Percent of Past Month Users	Adult MJ Users	Average Annual Use Days	Average Daily Consumption	Annual Demand	Share of Los Angeles County	
Days/Mo.			Days/Year	Grams	Metric Tons	Users	Demand
<1		231,971	6	0.30	0.4	61.0%	1.2%
1-5	36.6%	55,271	36	0.67	1.3	14.5%	3.7%
6-10	8.5%	12,836	96	0.67	0.8	3.4%	2.3%
11-15	7.3%	11,024	156	0.67	1.1	2.9%	3.2%
16-20	7.3%	11,024	216	0.67	1.6	2.9%	4.4%
21-25	7.3%	10,523	276	1.60	4.6	2.8%	12.9%
26-31	32.9%	47,426	342	1.60	26.0	12.5%	72.3%
Total:	100.0%	380,075	-	-	35.9	100%	100%

Note: Numbers may not add due to rounding.

Source: Substance Abuse and Mental Health Administration – NSDUH State and Sub-state estimates, 2012-2014. California Department of Finance 2018 Demographic Forecasts. MPG “Market Size and Demand for Marijuana in Colorado: 2016 Market Update.”.

The incorporated cities allowing any form of commercial cannabis activity in District 1 include: **Los Angeles, El Monte, Baldwin Park and Huntington Park.**

**Appendix Figure 1B.
Adult Marijuana Users and Total Demand among LAC Supervisorial District 2, 2019**

Frequency of Use	Percent of Past Month Users	Adult MJ Users	Average Annual Use Days	Average Daily Consumption	Annual Demand	Share of Los Angeles County	
Days/Mo.			Days/Year	Grams	Metric Tons	Users	Demand
<1		290,582	6	0.30	0.5	59.9%	1.1%
1-5	36.6%	72,571	36	0.67	1.7	15.0%	3.7%
6-10	8.5%	16,854	96	0.67	1.1	3.5%	2.3%
11-15	7.3%	14,475	156	0.67	1.5	3.0%	3.2%
16-20	7.3%	14,475	216	0.67	2.1	3.0%	4.4%
21-25	7.3%	13,817	276	1.60	6.1	2.8%	13.0%
26-31	32.9%	62,269	342	1.60	34.1	12.8%	72.3%
Total:	100.0%	485,042	-	-	47.1	100%	100%

Note: Numbers may not add due to rounding.

Source: Substance Abuse and Mental Health Administration – NSDUH State and Sub-state estimates, 2012-2014. California Department of Finance 2018 Demographic Forecasts. MPG “Market Size and Demand for Marijuana in Colorado: 2016 Market Update.”.

The incorporated cities allowing any form of commercial cannabis activity in District 2 include: **Los Angeles, Carson, Lynwood and Culver City.**

**Appendix Figure 1C.
Adult Marijuana Users and Total Demand among LAC Supervisorial District 3, 2019**

Frequency of Use	Percent of Past Month Users	Adult MJ Users	Average Annual Use Days	Average Daily Consumption	Annual Demand	Share of Los Angeles County	
Days/Mo.			Days/Year	Grams	Metric Tons	Users	Demand
<1		303,836	6	0.30	0.5	62.4%	1.2%
1-5	36.6%	68,328	36	0.67	1.6	14.0%	3.7%
6-10	8.5%	15,868	96	0.67	1.0	3.3%	2.3%
11-15	7.3%	13,628	156	0.67	1.4	2.8%	3.2%
16-20	7.3%	13,628	216	0.67	2.0	2.8%	4.4%
21-25	7.3%	13,009	276	1.60	5.7	2.7%	12.9%
26-31	32.9%	58,628	342	1.60	32.1	12.0%	72.2%
Total:	100.0%	486,925	-	-	44.4	100%	100%

Note: Numbers may not add due to rounding.

Source: Substance Abuse and Mental Health Administration – NSDUH State and Sub-state estimates, 2012-2014. California Department of Finance 2018 Demographic Forecasts. MPG “Market Size and Demand for Marijuana in Colorado: 2016 Market Update.”.

The incorporated cities allowing any form of commercial cannabis activity in District 3 include: **Los Angeles, Santa Monica, Malibu, and West Hollywood.**

**Appendix Figure 1D.
Adult Marijuana Users and Total Demand among LAC Supervisorial District 4, 2019**

Frequency of Use	Percent of Past Month Users	Adult MJ Users	Average Annual Use Days	Average Daily Consumption	Annual Demand	Share of Los Angeles County	
Days/Mo.			Days/Year	Grams	Metric Tons	Users	Demand
<1		238,405	6	0.30	0.4	60.2%	1.1%
1-5	36.6%	58,917	36	0.67	1.4	14.9%	3.7%
6-10	8.5%	13,683	96	0.67	0.9	3.5%	2.3%
11-15	7.3%	11,751	156	0.67	1.2	3.0%	3.2%
16-20	7.3%	11,751	216	0.67	1.7	3.0%	4.4%
21-25	7.3%	11,217	276	1.60	5.0	2.8%	13.0%
26-31	32.9%	50,553	342	1.60	27.7	12.8%	72.3%
Total:	100.0%	396,277	-	-	38.2	100%	100%

Note: Numbers may not add due to rounding.

Source: Substance Abuse and Mental Health Administration – NSDUH State and Sub-state estimates, 2012-2014. California Department of Finance 2018 Demographic Forecasts. MPG “Market Size and Demand for Marijuana in Colorado: 2016 Market Update.”.

The incorporated cities allowing any form of commercial cannabis activity in District 4 include: **Los Angeles, Long Beach, and Bellflower.**

**Appendix Figure 1E.
Adult Marijuana Users and Total Demand among LAC Supervisorial District 5, 2019**

Frequency of Use	Percent of Past Month Users	Adult MJ Users	Average Annual Use Days	Average Daily Consumption	Annual Demand	Share of Los Angeles County	
Days/Mo.			Days/Year	Grams	Metric Tons	Users	Demand
<1		245,113	6	0.30	0.4	61.9%	1.2%
1-5	36.6%	56,057	36	0.67	1.3	14.1%	3.5%
6-10	8.5%	13,019	96	0.67	0.8	3.3%	2.2%
11-15	7.3%	11,181	156	0.67	1.2	2.8%	3.0%
16-20	7.3%	11,181	216	0.67	1.6	2.8%	4.2%
21-25	7.3%	10,673	276	1.60	4.7	2.7%	12.3%
26-31	32.9%	48,100	342	1.60	26.3	12.1%	68.8%
Total:	100.0%	395,323	-	-	36.4	100%	95%

Note: Numbers may not add due to rounding.

Source: Substance Abuse and Mental Health Administration – NSDUH State and Sub-state estimates, 2012-2014. California Department of Finance 2018 Demographic Forecasts. MPG “Market Size and Demand for Marijuana in Colorado: 2016 Market Update.”.

The incorporated cities allowing any form of commercial cannabis activity in District 5 include: **Los Angeles and Lancaster.**

Visitor and Commuter Demand

In addition to estimating Los Angeles County resident and commuter demand for marijuana, MPG also analyzed marijuana demand attributable to visitors and tourists. Using 2019 projections of annual visitation data, which details visitor origin, average length of stay, and corresponding marijuana use prevalence data, the MPG estimated total 2019 visitor demand for LAC marijuana at 17.0 metric tons. Appendix Figure-2 below presents

the MPG estimate of visitor demand for LAC in 2019. These users will mostly be obtaining marijuana through regulated channels as most visitors will be above the age of 21 years old.

**Appendix Figure 2.
Visitor Demand for Los Angeles County Marijuana, 2019**

2018 Domestic/International Visitation	2018 Annual Visitors	2018 MJ Use Days by Visitors Aged 21+	Annual MJ Demand (Metric Tons)
Domestic	42,042,672	19,964,664	14.6
International	7,387,343	3,654,232	2.4
Grand Total Visitor Demand	49,430,015	23,618,896	17.0

Note: Numbers may not add due to rounding.

Source: Discover Los Angeles – “LA Tourism by Numbers 2015 Quick Facts”. Substance Abuse and Mental Health Administration – “NSDUH State Estimates, 2012-2014”. Bureau of Labor Statistics – “Travel Expenditures, 2005–2013: Domestic and International Patterns in Recession and Recovery”. United Nations Office of Drug Control Statistics. Inter-American Drug Abuse Control Commission – “Report on Drug Use in the Americas 2015”. World Health Organization – “Management of Substance Abuse: Facts & Figures”.

Commuter demand is derived by applying county-level NSDUH prevalence factors to the in-commuting population.

**Appendix Figure 3.
Commuter Demand**

Note: Numbers may not add due to rounding.
Source: MPG, LLC; NSDUH; California Employment Development Department.

County	Daily Commuters to LAC	Past Month Prevalence	Commuter Cannabis Users
Orange	178,681	12.76%	22,800
Ventura	66,832	15.69%	10,487
Riverside	50,901	11.93%	6,074
San Bernardino	126,642	12.45%	15,772
Total			55,133

Commuter demand is a minor factor in our model to account for the regional nature of shopping and employment patterns. Commuters make up about 2 percent of annual demand (Report Figure 1).

Demand for Cannabis by Origin, User Type and Market

Figure 4 illustrates the total breakdown of demand by; Resident/Commuter, Domestic Visitors and International Visitors. The figure also displays the percentage (60 percent) that the MPG anticipates the regulated market will capture in 2018. Of the total regulated market demand; only 40 percent is estimated to be Adult-Use consumers, with 60 percent of the market being medical marijuana patients. After observing data from Colorado and Washington State and analyzing the regulatory climate in LAC and California as a whole; the MPG anticipates the regulated market capture to grow in the coming years, and a shift in the share of the market from medical cannabis patients to adult-use users.

Demand met by unregulated channels will shift to regulated markets as the overall market becomes more competitive when more licenses are issued, more products are available, and companies are competing for regional market share. Demand is also expected to shift from the medical market to the adult-use market as prices in adult use decline and the extra expense and effort to maintain a medical registration becomes less beneficial. There will always be a medical market, especially if there are different products and potency requirements for medical cannabis products.

**Appendix Figure 4.
Demand for Los Angeles County Marijuana, by Origin, User Type, and Market (metric tons) 2019**

LAC Resident/Commuter Demand	Share	Total Demand	Regulated Market Demand (60%)	Unregulated Market Demand (40%)
Total	100.0%	207.4	124.5	83.0
<i>Medical Marijuana Patients</i>	55.0%	114.1	68.4	45.6
<i>Recreational Marijuana Users</i>	45.0%	93.3	56.0	37.3
LAC Domestic Visitor Demand				
Total	100.0%	14.6	12.0	2.7
Non-California Residents	54.2%	7.9	7.9	0.0
California Residents	45.8%	6.7	4.0	2.7
<i>Medical Marijuana Patients</i>	55.0%	3.7	2.2	1.5
<i>Recreational Marijuana Users</i>	45.0%	3.0	1.8	1.2
LAC International Visitor Demand				
Total	100.0%	2.4	2.4	0.0
Grand Total 2018 Demand for LAC Marijuana		224.4	138.8	85.7

Note: Numbers may not add due to rounding.

Source: Substance Abuse and Mental Health Administration – NSDUH State and Sub-state estimates, 2012-2014. California Department of Finance 2018 Demographic Forecasts. MPG “Market Size and Demand for Marijuana in Colorado: 2016 Market Update.”

Product Market Share by Market and Type

Consumers will have several cannabis product types to choose from, including flower, edibles, concentrated extracts, and infused non-edibles. In recent years, the popularity of edibles and concentrates has grown significantly in states with regulated sales. MPG used recent Colorado data to make an informed estimate of the market share for each product type in each regulated market.

MPG calculated average prices for marijuana products in California’s medical marijuana market and in other states with regulated medical and recreational sales in order to estimate the total market size, in terms of dollar sales. Figure 5 provides the estimated share of each product type in the medical and recreational markets, the associated average retail price, and the total market value from the sales of each product type.

**Appendix Figure 5.
Marijuana Product Market Share, by Regulated Market - 2019**

Product Type	CA 2018 Estimated Product Market Share	Demand (Metric Tons of Flower Equivalent)	Average Price	Market Value (\$ Millions)
Medical Marijuana				
Flower	66.4%	46.9	\$8.00 Per Gram	\$375.4
Concentrates	26.5%	18.7	\$30.00 Per Gram	\$122.1
Infused Edibles	6.1%	4.3	\$20.00 Per 100mg Unit	\$87.9
Infused Non-Edibles	1.0%	0.7	\$15.00 Per Unit	\$10.8
Total	100.0%	70.7	-	\$596.2
Recreational Marijuana				
Flower	63.2%	43.1	\$15.00 Per Gram	\$646.0
Concentrates	22.0%	15.0	\$50.00 Per Gram	\$163.0
Infused Edibles	13.3%	9.1	\$25.00 Per 100mg Unit	\$231.1
Infused Non-Edibles	1.5%	1.0	\$20.00 Per Unit	\$20.9
Total	100.0%	68.1		\$1,060.9
Grand Total LAC Marijuana Market Size		138.8		\$1,657.2

Note: Numbers may not add due to rounding.

Source: MPG calculations based on Washington and Colorado market data.

Jurisdiction Information

MPG allocates sales across LAC by license in the tax projections. There are an expected 498 retail licenses according to research conducted winter 2017/2018. Most licenses (487) will be available in jurisdictions that permit adult-use and medical cannabis. There are an expected 40 licenses (about 8 percent of total) in unincorporated LAC.

**Appendix Figure 6.
Jurisdiction Information – Current as of January 2018**

City	Supervisory District	Retail/Delivery Adult-Use	Retail/Delivery Medical	Cultivation Manufacturing Distribution	Anticipated Retail Permits	City Adult Use Tax Rate (Special Can. Tax)	City Medical Tax Rate (Special Can. Tax)
Baldwin Park	1	No	No	Yes	0	-	-
Bell	1	No	No	Yes	0	-	-
Bellflower	4	No	Yes	Yes	4	-	0%
Carson	2	No	No	Yes	0	-	-
Cudahy	1	No	No	Yes	0	-	-
Culver City	2	Yes	Yes	Yes	3	6%	5%
El Monte	1	No	No	Yes	0	-	-
Huntington Park	1	No	Yes	Yes	3	-	0%
Lancaster	5	No	No	Yes	0	-	-
Long Beach	4	Yes	Yes	Yes	32	10%*	6%
Los Angeles	1, 2, 3, 4, 5	Yes	Yes	Yes	401	10%	5%
Lynwood	2	No	No	Yes	0	-	-
Malibu	3	No	Yes	Yes	2	-	0%
Maywood	1	Yes	Yes	Yes	3	6%	5%
Santa Monica	3	No	Yes	Yes	2	-	0.125%
Unincorporated LAC	1, 2, 3, 4, 5	Yes	Yes	Yes	40	10%	5%
West Hollywood	3	Yes	Yes	Yes	8	10%	5%
Total Retail Permits (AU & Med)					498		

Note: Numbers may not add due to rounding.

Source: MPG from LAC and individual municipalities.

Tax Revenue Estimation

LAC tax revenues will depend on the quantity of legal sales inside the county. In turn, these sales will grow or shrink, based on the final price of marijuana products in each of the County’s cities, and based upon the relative prices of marijuana between the legal and illegal markets.

However, if multiple cities in LAC choose to ban sales, it is unlikely to impact the County’s revenues, so long as there are large cities like LA City and Long Beach, where the County tax is applied. In other words, cannabis consumers in a community that bans retail sales will likely travel to a nearby municipality that allows sales. If cannabis retail establishments are reasonably available, then consumers will likely choose them over illicit suppliers, assuming competitive pricing. The presence of unlicensed retail establishments will slow this absorption.

In order to calculate County-wide revenues, the MPG first reviewed current and proposed tax measures for each city. Next, expected number of retail licenses in each city was used to estimate a relative share of potential adult use and medical marijuana sales. Finally, the relative tax rates were compared against a “benchmark” tax rate of 33 percent for adult-use and 19 percent for medical products. The benchmark rates represent a cumulative tax rate at the midpoint across all jurisdictions in LAC that is used to adjust sales upward or downward in each municipality to estimate demand elasticity and tax sensitivity among consumers.

If the cumulative tax rate is higher than 33 percent, then sales are adjusted downward to account for consumers purchasing cannabis in lower tax jurisdictions or on the illicit market. Conversely, if a city’s cumulative tax rate is low, then demand is adjusted upward as consumers from other areas buy cannabis products in the lower tax community. LAC countywide tax is not affected by this dynamic, but the unincorporated sales are adjusted downward slightly to account for a small amount of price conscious consumers seeking the least expensive product in lower tax communities. LA City sales are adjusted similarly. Each jurisdiction has a 35 percent cumulative tax rate, which is slightly higher than the midpoint rate in the county.

Demand within each city and the unincorporated area is computed in this manner and is then combined to calculate sales and tax revenue. Figure 7 shows an example of how the demand in each city is computed, and then combined for total revenues for adult use. Medical taxes are calculated similarly.

Appendix Figure 7.
Example Adult Use Tax Collection Estimates - by City within LA County

	Retail Licenses	License Share	State & Local Sales Tax (AU Only)	State Retail Excise Tax	City/Uninc Cannabis Tax Rate	Countywide Cannabis Tax Rate	Cumulative Rate	Demand / Market Size	Adjusted Sales	LAC Tax Revenue
LA County Total	487	100%						\$1,060,776,158	\$942,523,851	\$12,458,068
UNINCORPORATED AREAS	40	8.2%	9.50%	15.0%	10.0%	0.5%	35.0%	\$87,127,405	\$77,454,485	\$8,132,721
INCORPORATED CITIES										
Los Angeles	401	82.3%	9.50%	15.0%	10.0%	0.5%	35.00%	\$873,452,237	\$776,481,213	\$3,882,406
Long Beach	32	6.6%	10.25%	15.0%	10.0%	0.5%	35.75%	\$69,701,924	\$59,390,989	\$296,955
West Hollywood	8	1.6%	9.50%	15.0%	10.0%	0.5%	35.00%	\$17,425,481	\$15,490,897	\$77,454
Maywood	3	0.6%	9.50%	15.0%	8.0%	0.5%	33.00%	\$6,534,555	\$6,534,555	\$32,673
Culver City	3	0.6%	10.00%	15.0%	6.0%	0.5%	31.50%	\$6,534,555	\$7,171,712	\$35,859

Note: Numbers may not add due to rounding.

Source: MPG, LLC.

Tax Projection Scenarios – Baseline and Alternatives

Retail tax projections are based on a countywide tax rate of 0.5 percent on adult use and 0.25 percent on medical purchases in incorporated areas and an additional 10 percent on adult use and 5 percent on purchases in the unincorporated area. The five-year projection considers population growth, cannabis use prevalence growth, increased regulated market capture and price decline based on official sources or observed data from Colorado and Washington.

Three scenarios are projected: (1) a baseline scenario, where LAC maintains its market share for 5 years; (2) where LAC market share is diluted due to additional licenses issued in municipalities; and (3) where LAC retailers secure and maintain a larger market share due to locational factors or other factors, such as very well-run stores, advantageous access, and visibility on major thoroughfares. All scenarios are based on the following assumptions.

Appendix Figure 8. Projection Scenario Macro Assumptions

Assumption	Value	Source
5-Year Population Growth	0.83%	Projections Prepared by Demographic Research Unit, California Department of Finance, January 2018
Cannabis Use Prevalance Growth	6.88%	Federal Survey (NSDUH). Historic annual growth rate applied.
Weighted Price/per Gram	\$15.56 to \$11.90 /Adult Use \$8.44 to \$5.93 /Medical	Based on observed CO (metrc) and WA (i502) data
Sales Capture (Baseline)	8% capture based on licenses (40 out of an estimated 500)	MPG Estimate
LAC Toursim Growth	3.5%	https://www.discoverlosangeles.com/tourism/research

Source: MPG, LLC.

**Appendix Figure 9.
LAC Retail Cannabis Tax Projection – Baseline**

	2019	2020	2021	2022	2023
Population aged (21+)	7,724,018	7,788,252	7,853,019	7,918,326	7,984,175
Past Month Prevalence	10.79%	11.54%	12.33%	13.18%	14.09%
Past-month cannabis consumers (PMCC)	833,736	898,531	968,360	1,043,617	1,124,722
Resident/Commuter Demand (Metric Tons MT)	207.4	223.5	240.9	259.6	279.8
Visitor Demand (MT)	17.0	17.6	18.2	18.9	19.5
Total Demand (MT)	224.4	241.1	259.1	278.5	299.3
Regulated Market Capture (AU)	30.4%	39.8%	49.2%	58.6%	68.0%
Regulated Market Capture (Med)	31.5%	30.4%	29.4%	28.3%	27.2%
Regulated Market Demand (MT)					
Adult-Use	68.1	95.9	127.4	163.1	203.5
Medical	70.7	73.4	76.1	78.8	81.5
Total	138.8	169.2	203.5	241.9	285.0
Price/gram (\$)					
Adult-Use	\$15.57	\$14.65	\$13.73	\$12.82	\$11.90
Medical	\$8.44	\$7.81	\$7.18	\$6.56	\$5.93
Regulated Sales - Unadjusted - Countywide (\$ Million)					
Adult-Use	\$1,060.8	\$1,404.9	\$1,749.8	\$2,090.6	\$2,421.2
Medical	\$596.1	\$573.0	\$546.6	\$516.8	\$483.6
Total	\$1,656.9	\$1,977.9	\$2,296.4	\$2,607.5	\$2,904.8
LAC Uninc Sales - Unadjusted - (\$ Million)					
Adult-Use	\$87.1	\$115.4	\$143.7	\$171.7	\$198.9
Medical	\$47.9	\$46.0	\$43.9	\$41.5	\$38.8
Total	\$135.0	\$161.4	\$187.7	\$213.3	\$237.7
LAC Tax Revenue - Unadjusted - (\$ Million)					
Adult-Use	\$12.5	\$16.5	\$20.6	\$24.6	\$28.4
Medical	\$3.4	\$3.3	\$3.1	\$3.0	\$2.8
Total	\$15.9	\$19.8	\$23.7	\$27.5	\$31.2

Note: Numbers may not add due to rounding.

This baseline scenario is based on observed growth in population and prevalence in California and a regulated market capture and pricing trend observed in Colorado and Washington. LA County captures 8 percent of the market based on amount of licenses.

Source: MPG from publicly available data.

Appendix Figure 10.
LAC Retail Cannabis Tax Projection – Dilution

	2019	2020	2021	2022	2023
Population Aged (21+)	7,724,018	7,788,252	7,853,019	7,918,326	7,984,175
Past Month Prevalence	10.79%	11.54%	12.33%	13.18%	14.09%
Past-Month Cannabis Consumers (PMCC)	833,736	898,531	968,360	1,043,617	1,124,722
Resident/Commuter Demand (Metric Tons MT)	207.4	223.5	240.9	259.6	279.8
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Regulated Market Capture (AU)	30.4%	39.8%	49.2%	58.6%	68.0%
Regulated Market Capture (Med)	31.5%	30.4%	29.4%	28.3%	27.2%
Regulated Market Demand (MT)					
Adult-Use	68.1	95.9	127.4	163.1	203.5
Medical	70.7	73.4	76.1	78.8	81.5
Total	138.8	169.2	203.5	241.9	285.0
Price/gram (\$)					
Adult-Use	\$15.57	\$14.65	\$13.73	\$12.82	\$11.90
Medical	\$8.44	\$7.81	\$7.18	\$6.56	\$5.93
Regulated Sales - Unadjusted - Countywide (\$ Million)					
Adult-Use	\$1,060.8	\$1,404.9	\$1,749.8	\$2,090.6	\$2,421.2
Medical	\$596.1	\$573.0	\$546.6	\$516.8	\$483.6
Total	\$1,656.9	\$1,977.9	\$2,296.4	\$2,607.5	\$2,904.8
LAC Uninc Sales - Unadjusted - (\$ Million)					
Adult-Use	\$87.1	\$91.8	\$95.0	\$97.0	\$98.1
Medical	\$47.9	\$36.8	\$29.2	\$23.7	\$19.4
Total	\$135.0	\$128.6	\$124.2	\$120.7	\$117.5
LAC Tax Revenue - Unadjusted - (\$ Million)					
Adult-Use	\$12.5	\$14.4	\$16.2	\$17.9	\$19.5
Medical	\$3.4	\$2.9	\$2.5	\$2.2	\$1.9
Total	\$15.9	\$17.3	\$18.7	\$20.1	\$21.4

Note: Numbers may not add due to rounding.

Macro assumptions are the same as the baseline scenario. LAC market share declines from 8 percent to 4 percent as more facilities open in the incorporated areas.

Source: MPG from publicly available data.

Appendix Figure 11.
LAC Retail Cannabis Tax Projection – Increased Capture

	2018	2019	2020	2021	2022
Population	7,724,018	7,788,252	7,853,019	7,918,326	7,984,175
PM Prevalence	10.8%	11.5%	12.3%	13.2%	14.1%
Past-Month Cannabis Consumers (PMCC)	833,736	898,531	968,360	1,043,617	1,124,722
Resident/Commuter Demand (Metric Tons MT)	207.4	223.5	240.9	259.6	279.8
Visitor Demand (MT)	17.0	17.6	18.2	18.9	19.5
Total Demand (MT)	224.4	241.1	259.1	278.5	299.3
Regulated Market Capture (AU)	30.4%	39.8%	49.2%	58.6%	68.0%
Regulated Market Capture (Med)	31.5%	30.4%	29.4%	28.3%	27.2%
Regulated Market Demand (MT)					
Adult-Use	68.1	95.9	127.4	163.1	203.5
Medical	70.7	73.4	76.1	78.8	81.5
Total	138.8	169.2	203.5	241.9	285.0
Price/gram (\$)					
Adult-Use	\$15.57	\$14.65	\$13.73	\$12.82	\$11.90
Medical	\$8.44	\$7.81	\$7.18	\$6.56	\$5.93
Regulated Sales - Unadjusted - Countywide (\$ Million)					
Adult-Use	\$1,060.8	\$1,404.9	\$1,749.8	\$2,090.6	\$2,421.2
Medical	\$596.1	\$573.0	\$546.6	\$516.8	\$483.6
Total	\$1,656.9	\$1,977.9	\$2,296.4	\$2,607.5	\$2,904.8
LAC Uninc Sales - Unadjusted - (\$ Million)					
Adult-Use	\$87.1	\$163.3	\$203.4	\$243.0	\$281.5
Medical	\$47.9	\$65.7	\$62.7	\$59.2	\$55.4
Total	\$135.0	\$229.0	\$266.1	\$302.3	\$336.9
LAC Tax Revenue - Unadjusted - (\$ Million)					
Adult-Use	\$12.5	\$20.8	\$25.9	\$31.0	\$35.9
Medical	\$3.4	\$4.2	\$4.0	\$3.8	\$3.5
Total	\$15.9	\$25.0	\$29.9	\$34.7	\$39.4

Note: Numbers may not add due to rounding

LAC maintains 40 licenses, but due to locational and other factors, the stores outperform competition and LAC captures 11 percent of the market.

Source: MPG from publicly available data.

Non-retail Tax

The figure below displays gross receipts tax revenue estimate from cultivation, manufacturing and distribution of cannabis in LAC. MPG estimates LAC will collect about \$2.4 million in non-retail taxes.

Appendix Figure 15.
LAC Gross Receipts Tax Estimate - 2019- \$ Million

Cannabis Sector	Economic Value (\$M)	Supply Chain Allocation	LAC Pre-regs capture	LAC Post-regs capture	LAC Economic Value (\$M)	Uninc LAC Share	Uninc LAC Gross Receipts (\$M)	Incorp LAC Gross Receipts (\$M)	LAC Tax Revenue (\$M)
Cultivation	\$ 1,560.0	30.6%	4.8%	10.0%	\$ 156.0	3.6%	\$ 5.6	\$150.4	\$0.9
Manufacturing	1,023.3	20.1%	7.0%	10.0%	102.3	2.0%	2.0	100.3	\$0.6
Distribution/Transport	510.0	10.0%	n/a	32.5%	165.7	2.8%	4.6	161.1	\$0.9
Retail	2,006.7	39.3%	32.5%	32.5%	652.0				
Total Value	\$ 5,100.0	100.0%			\$1,076.0		\$12.2	\$411.8	\$2.4

Note: Numbers may not add due to rounding

Source: State SRIA Documents (see footnotes); MPG LLC.

The following describes the calculation process:

- Economic value and supply chain allocation.** MPG accessed state cultivation², manufacturing³ and retail/distribution^{4,5} SRIA and other documents to develop the economic value and supply chain allocations. The cultivation value is based on statewide production of 1.3 million pounds of cannabis and wholesale value of \$1,200 per pound. Manufacturing value is based on 23.6 million grams of cannabis oil and a wholesale value of \$43 per gram. Retail and distribution/transport size is based on a combined 50 percent markup of wholesale prices, heavily weighted to retail as indicated in the retail/distribution SRIA and Pacific University study. Pure distributors may not emerge, because the state will allow cultivators and manufacturers to distribute their products directly. Few cities are putting hard caps on the numbers of licenses to be issued which makes it difficult to assess the full implications of a gross receipts tax among wholesalers.
- LAC capture rates.** MPG market size estimates of the state (\$5.1 billion) and LAC (\$1.66 billion) indicate LAC will capture 32 percent of retail sales and a similar distribution figure. Total market size is based on NSDUH prevalence rates and price figures shown in Appendix Figure 5. State SRIA studies indicate LAC is home to 5 percent of current statewide cultivation activity and 7 percent of current manufacturing activity. MPG estimates these rates will modestly increase to 10 percent. These assumptions imply that about two-thirds of cannabis products consumed in LAC are produced elsewhere in the state, which seems reasonable given that Northern California is home to most of the state’s production and LAC’s relatively high resource costs.

² http://www.dof.ca.gov/Forecasting/Economics/Major_Regulations/Major_Regulations_Table/documents/Cultivation_SRIA_CDFA_1-5-2018.pdf

³ http://www.dof.ca.gov/Forecasting/Economics/Major_Regulations/Major_Regulations_Table/documents/DPH_OMCS_SRIA_021017.pdf

⁴ http://www.dof.ca.gov/Forecasting/Economics/Major_Regulations/Major_Regulations_Table/documents/SRIAandAppendix.2.28.17.pdf

⁵ http://www.pacific.edu/Documents/school-business/BFC/CannabisStudy/Sacramento%20Area%20Legal%20Cannabis%20Sector%20Impact%20Study_2016_10_12.pdf

- **Incorporated/Unincorporated share and tax revenue.** Assumptions for cultivation activity were that LAC offered 10 of a total of 279 licenses available, all being “type 3” license types, resulting in a total canopy of roughly 4.4 million square feet. For manufacturing, there are an assumed 511 licenses available, 10 of which will be in the unincorporated area. MPG assumed the unincorporated area would capture 2.8 percent of distribution gross receipts – the average rate of cultivation and manufacturing. All other activity is assumed to occur in incorporated areas. LAC is evaluating a 2.5 percent gross receipts tax on cannabis entities in the unincorporated areas and a 0.5 percent rate in incorporated areas. Gross receipts taxes are estimated at \$2.4 million per year.

Unlike retailers, manufacturers, distributors and cultivators are free to locate operations where conditions are financially advantageous within California. Gross receipts taxes are estimated at \$2.4 million per year, assuming LAC captures 10 percent of cultivation/manufacturing activity, and 32 percent of retail/distribution activity. MPG calculated an upper bound gross receipts tax estimate at \$7 million if LAC captured 32 percent of all economic activity and the unincorporated areas captured 10 percent of activity within LAC.

There are a host of factors that impact virtually all industrial location decisions and that undoubtedly will impact cannabis cultivators, manufacturers and distributors in California. Corporate siting choices generally involve cost minimization related to land, facilities, water, electricity, and, in the case of labor and water quality, demonstration of an acceptable standard for cannabis production and manufacturing. The cannabis industry will be no different than other industries as companies attempt to optimize physical, market and economic factors to provide the most benefit for employees, shareholders and customers. LAC is expected to be a consumer center primarily, and gross receipts tax will be a relatively small amount of overall LAC cannabis tax revenues.