



## County of Santa Cruz Board of Supervisors

### Agenda Item Submittal

**From:** County Administrative Office

**Subject:** Chapter 7.130 amendments to incorporate new business license requirements to allow for consumption on-site and various technical amendments

**Meeting Date:** March 11, 2025

**Formal Title:** Consider approving in concept an "Ordinance Amending Section 7.130.030 and 7.130.110 of the Santa Cruz County Code Regarding Retail Commercial Cannabis Operations," approve the California Environmental Quality Act Notice of Exemption, and take related actions

### Recommended Actions

1. Approve in concept an "Ordinance Amending Section 7.130.030 and 7.130.110 of the Santa Cruz County Code Regarding Retail Commercial Cannabis Operations" allowing for onsite consumption and schedule the ordinance for second reading and final adoption on March 25, 2025;
2. Approve the Notice of Exemption for compliance with the California Environmental Quality Act; and
3. Direct the Clerk of the Board to publish the Notice of Proposed Ordinance Summary in a newspaper of general circulation at least five days prior to the scheduled second reading and final adoption, no later than March 20, 2025, pursuant to Government Code Section 25124.

### Executive Summary

The Cannabis Licensing Office (CLO) has provided a proposed amendment to SCCC Chapter 7.130 (exhibit 1) based on the Board motion on June 4, 2024. This amendment would allow for onsite consumption of cannabis at existing retailers. The proposed amendments focus on technical amendments that will allow inhalable consumption while complying with state smoke free workplace regulations.

### Discussion

On November 14, 2023, the Board considered cannabis cultivation issues related to sustainable growth, economic development, and responsible cannabis regulation, in alignment with the 2023 Sustainability Plan updates. The Board discussed the matter and directed the CLO to conduct public meetings across various districts to collect public opinion. The motion from that meeting outlined specific discussion topics to be covered:

- Changes to canopy limits.
- Increases to cannabis cultivation area and greenhouses.
- Limited retail sale of cannabis goods grown and produced by cultivation licensees at the point of cultivation.
- Medicinal, educational and recreational options for onsite consumption.
- An onsite consumption pilot program.
- Changes to co-location options for non-retail commercial cannabis.

The Board instructed the CLO to facilitate community discussions on potential options to gain a deeper understanding of public concerns before considering any changes to the existing cannabis ordinance.

The CLO collaborated with Board members to identify key individuals and groups for targeted outreach to encourage attendance at the public meetings. Board members supported these efforts by including information about the meetings in their newsletters. The CLO promoted the meetings on their website and coordinated with the Public Information Officer to share updates across social media platforms, including NextDoor, X (formerly Twitter), and Facebook. A press release was also issued. The NextDoor post received 14,000 impressions, while the Facebook post garnered 1,100 impressions prior to the meetings.

Community meetings were conducted in districts one, two, four, and five. District three, which currently has no commercial cannabis businesses under County jurisdiction, did not host a meeting. The meetings were held in the evening and via a hybrid format, allowing community members to participate either in person or via Zoom.

The CLO presented a report of the results of the listening sessions to the Board on June 4, 2024. Community feedback in regard to onsite consumption, for existing retailers included: Community members expressed several concerns regarding this topic, which were comparable to those associated with on-site consumption at cultivation sites. Concerns included the risk of impaired driving, the condition of the County road infrastructure, the proximity of some retail locations to school routes, and the potential for youth exposure at these sites. A group of community members suggested that the County engage with the California Highway Patrol and the Sheriff to gain their insights on this issue. They also questioned the market demand for such initiatives. Some retailers supported the proposal, highlighting the potential market and expressing enthusiasm about the unique experiences a consumption lounge could offer, including educational opportunities. This retailer also noted that a regulated setting could enhance the product's value.

Some community members expressed interest in establishing additional retail outlets in the County. They were enthusiastic about the possibility of integrating retail businesses with wellness and restaurant enterprises. Other community members were neutral on the idea, stressing the importance of selecting suitable locations and implementing measures to ensure public safety. There was also support for initiating this concept as a pilot program, allowing for the gathering of experience on a smaller scale before deciding on a broader implementation.

Several suggestions were made regarding this topic, including the implementation of measures to limit youth exposure, reviewing regulatory models from other jurisdictions, and setting consumption sales limits that differentiate between inhalable products and edibles to account for the delayed effects of the latter. Additionally, it was noted that cannabis industry retailers should be held accountable for overserving patrons, akin to the liabilities faced by alcohol-serving establishments.

The report prompted a discussion that resulted in the Board directing the CLO to draft ordinances related to the items on the November 14, 2023, agenda item. These specifically included the following:

- a) Align the canopy limits across zone districts and license classes with their current co-location maximums.
- b) Remove the co-location option outlined under the non-retail commercial cannabis uses section of SCCC 13.10.650.
- c) Allow cultivators in good standing who have not been the subject of complaints to apply for an additional 2% canopy bonus of the parcel size every year.
- d) Allow CA-zoned parcels, less than 10 acres, to use the entire square footage of established greenhouses for cannabis production.
- e) Allow limited retail sales and consumption of cannabis goods grown by the licensee at the point of cultivation, similar to a winery.
- f) Allow current retail operators the option to have onsite consumption lounges.

Staff was further instructed to bring back the cultivation related items no later than the end of October and the items related to onsite consumption for retailers and cultivators no later than the end of 2024, including background information as it relates to economic impact analysis. This report is limited to consumption at existing retail businesses (item f). The Board previously reviewed the draft ordinance language during the October 29, 2024 meeting.

The Board directed staff to consider ancillary sales, CBT sales in retail and lounges, taxation on products consumed in lounges, and ways to extend the opportunity to have consumption lounges in more of the existing retailers, in October. On January 28, 2025 the Board reviewed three options for extending the opportunities to have consumption lounges for retailers. After discussing the options, the Board motion stated:

Move that the Board pursue option one (allow retailers the option of pursuing on-site consumption either within their existing licensed space or at an adjoining commercial parcel to the existing site) for on-site consumption. Move that the board pursue option one for defining ancillary products as those products derived from cannabis or those containing cannabis to allow for non-cannabis to be excluded from the cannabis business tax and to set the tax rate at one percent for cannabis products sold at lounges and receive an update on revenues from cannabis sales during the annual cannabis update. Direct the Health Services Agency to provide additional feedback when we (the Board) consider a lounge ordinance and then either at the same or separate date the Health Services Agency also provide recommendations for reducing underage cannabis consumption in our community.

#### Analysis of Proposed Amendments

The proposed amendments will allow existing retail businesses the option of pursuing on-site consumption either within their existing licensed space or at an adjoining commercial parcel to the existing site. The option to include this activity at an adjoining parcel was discussed in the community listening sessions and included in the Board motion.

The proposed amendments include technical requirements for onsite consumption that will limit impacts to adjoining parcels through engineered mitigation systems. Licensees will be required to implement a designated cannabis smoking area and a ventilation system plan, developed by a licensed mechanical engineer. These plans are intended to design a system which can remove all detectable odors, smoke and by-products of combustion. Many of the technical aspects of these plans have been modeled off of the

Environmental Health requirements that San Francisco has developed for cannabis consumption lounges.

These plans are designated to comply with smoke free workplace requirements in the state. Some of the critical components include: a) workers cannot be required to go into the areas where inhalable products can be consumed and b) those areas be under negative pressure. Negative pressure means that air from the exterior of the room is being mechanically pulled into the room and exhausted, a common example of a negative pressure room is a hospital isolation room.

The proposed amendments include a prohibition from selling ingestible (non-inhalable) products with a serving size greater than 10 mg of THC. This was included to address the delayed effects of non-inhalable cannabis products and address the community concerns voiced during the listening sessions.

### Research Findings

Cannabis consumption lounge business models vary throughout the State. In order to provide context for the Board, staff has provided a summary of its findings, gathered through phone interviews with operators and regulators mainly within northern California. Staff focused on surveying cannabis lounge operators in smaller markets similar to Santa Cruz County and avoiding interviewing operators in large metropolitan markets such as Los Angeles and San Francisco. However, materials from larger metropolitan areas were reviewed via on-line research, which included twenty-one different lounges.

All cannabis lounges surveyed allow for consumption of inhalable, edibles and infused beverages. All lounges have private party rentals. Many of the cannabis lounges surveyed noted that the lounge has served as a differentiator for their business. Many lounges identified their space as supportive and symbiotic to local non-retail cannabis businesses. Examples provided from several operators included:

- Farmers market style events featuring local businesses
- Farm takeovers of the lounge space where a single operator's products are featured
- Curated cannabis events featuring a variety of local farms
- Educational days geared to senior citizens
- Private parties with catering provided by local restaurants

The consistent benefit that all operators expressed was that the lounge provided a safe space for educating people on cannabis use. As an example, we interviewed a lounge operator in an area where the tourism aspect of the local economy looms large. That operator stated their lounge was a tourist draw and cited many of his customers go there because they can consume cannabis in a safe and comfortable environment. That operator mentioned events are a key aspect to their business and that they also partner with local restaurants to provide non-cannabis food options.

### Health Services Agency Analysis

Health Services Agency Public Health Division (Public Health) has shared concerns about the expansion of the availability of cannabis at farm stands / farm consumption locations. These concerns include the need to raise awareness around potency of modern cannabis products; the potential for mental health conditions with prolonged cannabis use and use of high potency products; youth access to cannabis and the

normalization of cannabis use on youth populations; impaired driving after cannabis use at a consumption location; second-hand smoke at consumption locations and the need for server training and oversight at consumption lounge locations. Additional details can be found in the attached Health Impact Assessment.

On today's agenda Public Health has a separate letter speaking specifically to the concerns around underage cannabis use. Public Health notes that additional requirements should be considered in the licensing process for retail consumption lounges and at farm locations in order to safeguard public health. Some of these the Board has already discussed and suggested that the Cannabis Licensing Office (CLO) include in Licensing requirements for these new business models. Public Health suggested requirements include: 1) prominent signage at farm stand locations as recommended by the County Health Officer and approved and verified by the CLO regarding the potential impacts of cannabis consumption and exposure to second-hand smoke; 2) limiting the amount of cannabis available for purchase at retail farm stands and for purchase to use in consumption lounges; 3) requesting businesses implement a designated driver or rideshare protocol at consumption locations; and 4) determining a complaint process for licensed locations that includes an annual review by the Cannabis Licensing Office during the license renewal process.

Adopting lessons learned from responsible alcohol retailers and on-site alcohol consumption licensees to reduce risk, Public Health recommends future consideration of a licensing requirement for evidence-informed responsible server training program, which could be verified during regular Cannabis Licensing Office inspections. However, no such standardized training exists locally or statewide. In lieu of this, the Cannabis Licensing Office will continue to work collaboratively with Public Health to identify alternative strategies which support safe consumption and workplace safety, and update licensing requirements as determined by recent advances in science and/or other developments occur in order to maintain positive public health standards related to cannabis in our community.

### Economic Analysis

The available data to conduct a thorough economic analysis was limited. Operators could not necessarily distinguish what percentage of their sales was attributable to on-site consumption or to a specific event versus their regular retail space or were unwilling to share that data from the point-of-sales systems. Many of the operators have had a lounge as part of their business for the life of the business, which meant a before and after comparison of sales figures through State data sets related to the lounge activity could not be examined. Based on the interviews conducted we disaggregated the information between economies with tourism as a significant driver or not. Businesses where tourism was already a significant part of their economy indicated that lounge derived customers likely contribute 25-35% of total sales. Where tourism is not a factor in the local economy, businesses indicated that lounge derived customers likely contribute 15-20% of total sales. Regardless of the tourism, businesses indicated that events at lounges were key to the overall businesses success because events also attracted in local people and acted as a platform for obtaining repeat local customers.

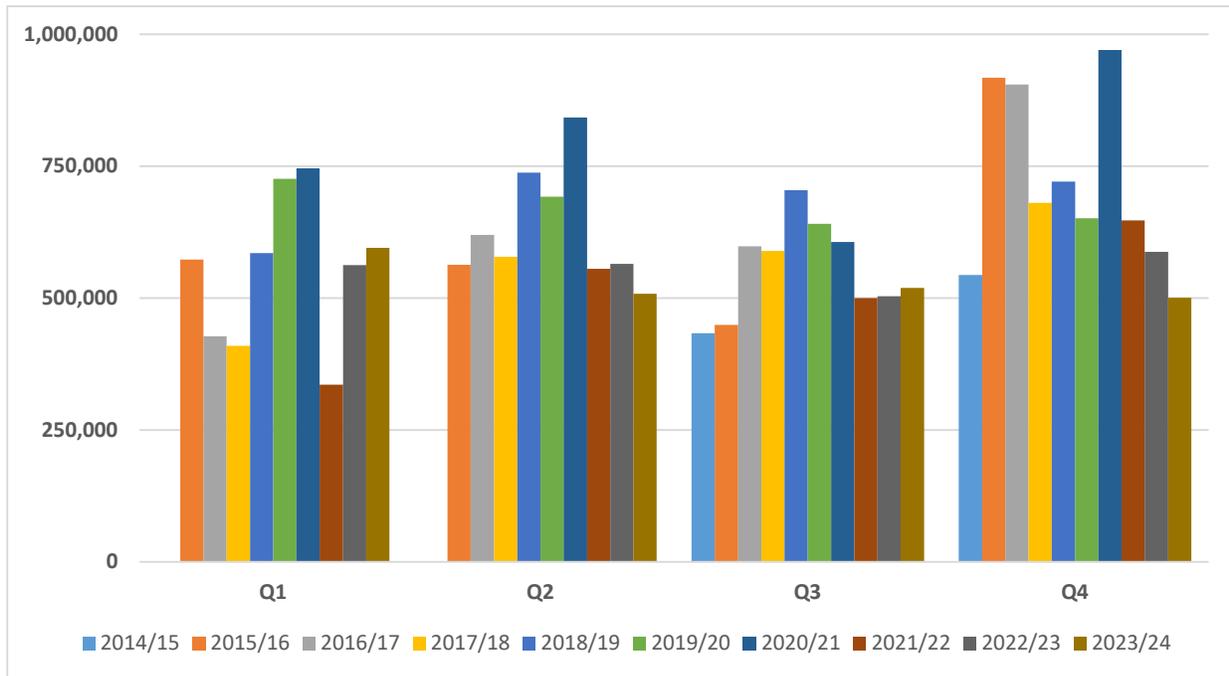
Our current Cannabis Business Tax (CBT) rate is 7% of gross receipts. CBT at the retail level has been somewhat consistent, with sales typically highest from June through November. Tax data is a lagging indicator, with June data indicating May sales. The average annual retail CBT is \$2,330,199 and the median is \$2,381,320 for the past ten

years. Below are two data sets showing total retail CBT collected annually since the inception of the retail ordinance and sales by quarter for the same period.

**Table 1: Annual Fiscal Year Retail Cannabis Business Tax**

Taxes	TOTAL	Year-to-Year Change	Notes
2014/15	978,009		Collection of taxes begins in January 2015
2015/16	2,504,043	156.0%	
2016/17	2,551,209	1.9%	
2017/18	2,258,597	-11.5%	
2018/19	2,749,569	21.7%	
2019/20	2,710,709	-1.4%	COVID lockdown starts March 2020
2020/21	3,166,457	16.8%	COVID return to "normal" June 2021
2021/22	2,039,916	-35.6%	
2022/23	2,218,828	8.8%	
2023/24	2,124,650	-4.2%	

**Table 2: Quarterly Fiscal Year Retail Cannabis Business Tax**



While an increase to the CBT is hard to predict based on information received during our interviews and on-line research, we can provide you with some different scenarios that relate changes in gross sales to changes in CBT.

The FY 2023-24 CBT was \$2,124,650, which represents 7% of gross receipts on \$30,352,143 worth of sales. Each 1% increase to gross sales generates an additional \$21,247 in CBT based on this data set. Below is a table that shows how an increase to gross sales (in percentages and dollars) create an increase in taxes, using the above data set as a starting point.

**Table 3: Increase in Gross Sales to Increase in Taxes**

Starting Point Gross Sales	% Increase to Gross Sales	Total Gross Sales With % Increase	Increase to Taxes	Total CBT Collected
30,352,143	1	30,655,664	21,247	2,145,897
	2	30,959,186	42,493	2,167,143
	5	31,869,750	106,233	2,230,883
	7	32,476,793	148,726	2,273,376
	10	33,387,357	212,465	2,337,115
	15	34,904,964	318,698	2,443,348
	20	36,422,572	424,930	2,549,580
	25	37,940,179	531,163	2,655,813

Based on this information as an example, on-site consumption lounges would need to generate an additional \$1,517,607 (5%) in gross sales in order for the county to receive an additional \$106,233 in CBT.

From our interviews with operators and localities and given that tourism is a major economic driver within our county, we would speculate that there could be a marginal increase to our CBT revenues with the advent of consumption lounges at our cannabis retailers. This increase is likely because we may see more tourism related spending at retailers who pursue the lounge experience. Not all of our retailers will be able to expand into this marketplace due to space, site or economic restrictions. All lounges would need to restrict usage to products purchased onsite therefore driving consumers to purchase their cannabis products from licensees. Overall that tourism related spending in the cannabis market may increase in our county, while repeat local customers may be attracted by specific events generated by the lounges.

There may be broader financial benefits to the County if cannabis lounges are allowed. According to a Harris poll 22% of Americans report they have chosen a destination based on recreational cannabis status. Thirty percent of Americans over 21 (50% of millennials) said they consider legal recreational cannabis status as important when choosing a destination for vacation.

According to Forbes the cannabis tourism market was valued at \$17.1 billion dollars in 2021, with \$4.5 billion in direct cannabis sales. Tourist “pour an additional \$12.6 billion into restaurants, hotels, attractions and other shops-as well as into state and municipality tax coffers. That’s because for every dollar spent at a cannabis retailer, there’s a multiplier effect, with an additional \$2.80 injected into the local economy, says Beau Whitney, founder and chief economist at [Whitney Economics](https://whitneyeconomics.com/).”

One positive example of cannabis tourism and the larger economic benefits can be seen in the City of Modesto, which has embraced cannabis tourism. They developed the [MoTown CannaPass](https://visitmodesto.com/cannapass/), which is an app based reward program that helps visitors find local cannabis retailers, presents offers from other local businesses and shares details on local restaurants and activities in town. The app includes tips on pairing cannabis with food, art and nature. Todd Aaronson, the CEO of Visit Modesto, said the MoTown CannaPass delivered an immediate 11% boost in traffic to local cannabis retailers and also in overnight visits to Modesto. In addition to Modesto, both Oakland and Palm Springs highlight their local cannabis industry.

## **Financial Impact**

The addition of consumption lounges would create some additional staff work, particularly at the outset when plans, ventilation systems, workplace safety and other items might have to be added to the Best Practices tool and would require staff review. License amendments would need to be processed for any retailer adding a consumption lounge and would likely be billed on time spent, similar to how we approach any other retail license amendment. As retailers are inspected annually with their license renewal, lounges would also require annual inspection and thus, annual licensing fees would need to be modified to account for additional inspections. Potential changes could include a fee-based system that is based on the amount of inspections or based on square feet of lounge space.

## **Strategic Initiatives**

Operational Plan - Dynamic Economy

## **Submitted By:**

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## **Recommended By:**

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## **Artificial Intelligence Acknowledgment:**

Artificial Intelligence (AI) did not significantly contribute to the development of this agenda item.