

MEMO

January 21, 2019

Response to: Preliminary Review (PR) was sent to Tim by CAG member Laura Waldbaum on January 17, 2019

Submitted by Terry Garrett, CAG Co-chair, and Co-author of the Economic Report with Rob Eyer

I appreciate the level of engagement and scrutiny on the economic report provided. That means the report is stimulating conversation. I've read many such reports over the years and written a few too, and it's always helpful to have them reviewed.

I'm responding to the main points raised in the PR, which I believe are seminal to a fundamental misunderstanding of the data by the author(s) of the Preliminary Review (PR).

In the opening paragraph, the author(s) claim the report doesn't include a complete and detailed production value. All the variables of production output are included in the report. The author(s) also stated the report was inconsistent and values were inflated. I'll address those specifically below, assuming the claim is made based on expertise of the author(s) and I look forward to seeing any *primary data* from Sonoma County specifically other than what we have estimated.

The metric system was used in the report to standardize measures across the supply chain. Cannabis manufacturing uses the metric system and we concluded to apply that to cultivation. We decided not to use a mixed system because it's more difficult to reconcile; standard metric system measures also facilitates international comparisons later.

The PR claims that prices used in the report are inflated. The only local source the PR quoted was Tony Linegar; in addition, national publication sources (we're only concerned with local and regional sources) were also quoted. First, Mr. Linegar was speaking about outdoor cultivation only, which generally produce products valued around one-third of premium indoor prices. Secondly, cannabis prices are not one number to represent all, this is a common misconception. Cannabis prices are stratified by type of cultivation (indoor, outdoor, greenhouse), strain profile (hundreds of possibilities, like the wine industry varietals and clones), product quality grade, and immediate market supply/demand dynamics (changes weekly).

We used prices for cannabis flower intended to be consumed by final users, not supply intended solely for extraction markets. The prices in the report were derived from surveys with local, retail dispensaries for what they pay for inputs as well as statewide data to confirm any local nuances; production output volumes were derived from interviews with expert farmers. We stand by our numbers as known in July 2018 (and reliably today) as viable estimates for Sonoma County.

I can't comment on the bulk of the PR thesis, as they do not provide sources consistently. Their methodology is especially off target for the IMPLAN data. The PR author(s) used these data in a mixed fashion where totals from the ripple effects are compared to just the direct impacts. This is also a classic oversight for laypersons commenting on economic impact analyses.

This circular critique is not a function of our report and we reject that method of rebuttal. It is better to speak directly to our findings within the exact context and make a case. Constructing findings by convoluting our data with other sources, making assumptions and conclusions, and then suggesting a lack of good faith in our report is disingenuous at best.

The PR misses the point regarding tax and regulation burdens on the cannabis industry. Local taxes are only one small fraction of the tax and regulation fee pie. The author(s) made huge assumptions about the financial operating budgets for cannabis companies in that they assume operators make massive profits based on the prices and gross revenue indicated, and that government should raise taxes not lower them. Financial pro forma for cannabis cultivators tell a different story by encompassing all regulatory costs.

In conclusion about the only critique of the report that is clear is that the PR author(s) think we inflated the production values, which leads to overstatements of the problems the industry faces and the industry's potential. We stand by our estimated production values as coming from direct sources in the Sonoma County industry as of July 2018 and the economic impacts that ripple out as shown in the report.