

Subgroup Report Supply Chain Alignment with State Law

The Board of Supervisors and the Medical Marijuana Regulation and Safety Implementation Ad Hoc Committee tasked the Cannabis Advisory Group (CAG) to develop recommendations related to cannabis in Sonoma County. In Fall 2017, the CAG selected five members to develop recommendations to align Sonoma County's cannabis policy with changes to state cannabis laws and regulations for supply chain operators, which includes all manufacturing, distribution, retail, events, microbusiness and testing facilities. The CAG established a separate subgroup to address alignment issues for cultivation. In developing this report, CAG subgroup members met on several occasions and presented draft recommendations at two CAG meetings, which included member discussion and public comment.

Current Findings

1. In 1996, the voters of the State of California approved Proposition 215, which was intended to decriminalize cultivation and possession of medical cannabis by a qualified patient, or the patient's primary caregiver, for the patient's personal use.
2. On September 26, 2006, the Sonoma County Board of Supervisors adopted Medical Marijuana Possession and Cultivation Guidelines in Resolution 06-0846, which provided a limited defense to prosecution or other sanction by County of Sonoma for medical use of cannabis by qualified patients.
3. In September 2015, the state enacted the Medical Marijuana Regulation and Safety Act (MMRSA), which instituted a comprehensive state-level licensure and regulatory scheme for the medical cannabis supply chain. MMRSA allowed for-profit commercial activity related to medical cannabis in California. MMRSA also created a dual licensing system whereby cannabis operators must obtain both local authorization and then state licensing for each type of cannabis activity, including nursery, cultivation, distribution, transportation, manufacturing, testing, and retail.
4. After MMRSA was passed, Sonoma County began developing medical cannabis policy, which was approved by unanimous vote of the Board of Supervisors in December 2016.
5. On November 8, 2016 the voters of California adopted Proposition 64, which legalized the use of cannabis for adult use in California.
6. In 2017, the state enacted several bills to homogenize the adult use and medical regulatory framework, and in November 2017 the state issued emergency regulations for the cannabis supply chain.

Recommendations

After comparing the existing Sonoma County medical cannabis policy to current state rules and regulations, the Supply Chain Subgroup recommends the following.

1. **Allow for Adult Use Permits.** Currently, the Sonoma County cannabis ordinance does not allow adult use. With over 136,358 or 59% of the voters supporting Proposition 64, the residents of Sonoma County have spoken and they want adult use allowed. In July, operators will be at a serious disadvantage if the County does not allow adult use and medical permits in Sonoma County. Adding the adult use market would increase taxes while continuing to attract investment in the local cannabis industry.

Recommendation: Resolve to allow adult use permits per the same rules as medical cannabis permits. Rather than open a full policy review, the CAG recommends allowing adult use through a board resolution as soon as possible. This will provide time for existing and pending permit holders to add adult use to their applications and obtain state licensing for both medical and adult use.

2. **Align with State License Transferability.** Sonoma County's ordinance presently disallows and ownership transfers of cannabis permits. This complete prohibition on ownership transfers restricts investment and financial growth of local cannabis companies. By disallowing ownership transfers, businesses are unable to sell to potential buyers or take on investment that would change the ownership structure of the permitted operation. This rule also differs from state rules, which allows ownership in a licensed operation to change upon prior notification and approval from the state agency.

Recommendation: Adopt a similar procedure as the state rules for permit transferability. Upon notification and approval of the County, allow permit ownership to transfer. This would not significantly impact the landuse for the property and would give the County the relevant information about the new ownership while allowing for business development and investment.

3. **Allow Type 7, Level 2 Volatile Manufacturing.** During the County's cannabis policy development process, the state provided little direction on the Type 7, Level 2 Volatile Manufacturing license. With the new laws and regulations, the state has strict rules for the storage, use, and disposal of volatile solvents. Volatile manufacturing is an important part of the supply chain. The solvents and processes used for volatile manufacturing are critical for pesticide remediation, extraction, and innovation through research and development.

While the Type 7 license carries more risks, the potential risks can be drastically reduced with proper fire and building controls and systems. Through the planning and building permit processes, facilities can be designed and constructed to provide safe, state-of-the-art volatile manufacturing. Allowing Type 7 licenses in industrial zones would attract additional businesses and would allow existing operators to expand their use. In the cannabis industry, manufacturing jobs are generally more technical and higher paid, leading to important tax and economic development in the area.

Recommendation: Allow Type 7, Level 2 Volatile Manufacturing in industrial zones (M1 & M2).

4. **Allow for New License Types.** Since the Sonoma County cannabis ordinance was passed in December 2016, the state laws and regulations have created several new license types, including:
- Packaging - packaging and repackaging of cannabis and cannabis products.
 - Type N (Infusion) - infusions of cannabis oils into edible and topical cannabis products.
 - Microbusiness - at one premises, allows operator to combine at least three license types (distribution, cultivation, manufacturing, or retail).
 - Events - with cannabis consumption and/or sales.
 - Distribution – self Distribution, Transport Only Distribution, and Full Distribution
 - Retail Non-storefront Delivery
 - S Type – shared facilities for manufacturers
 - Processor – for cultivation sites that conduct only trimming, drying, curing, grading, packaging, or labeling of nonmanufactured cannabis.

With the new license types, a series of recommendations follow.

5. **Allow P and N Types.** The P and N are manufacturing license types that allow for less operational activity than the Type 6, which allows for infusions, packaging as well as extraction. Since the County currently allows Type 6 licenses in Industrial zones, allowing the new manufacturing license types would allow different types of manufacturers to operate in the area.

Generally, infusion and packaging requires less space and equipment, while producing less noise and odors. These uses are suitable for additional land use and zoning. Finding industrial spaces with a few hundred to a thousand square feet is difficult and rental prices for larger spaces are far too expensive for small businesses. Therefore, we offer staged approach to allowing P and N.

Recommendation: Allow P and N license types in Industrial zones as soon as possible per resolution of the Board. In phase two of policy development, allow P and N permit types in Commercial and Industrial zones.

6. **Allow for All Distribution Types.** Currently the definition of a Cannabis Distribution Facility in the Ordinance is as follows:

The location or a facility where a person conducts the business of procuring medical cannabis from licensed cultivators or manufacturers for sale to licensed dispensaries, and the inspection, quality assurance, batch testing by a Type 8 licensee, storage, labeling, packaging and other processes prior to transport to licensed dispensaries. This Facility requires a Type 11 license pursuant to the Medical Cannabis Regulation and Safety Act (MCRSA).

This was Pre-Prop 64 Adult Use and Pre-State regulations for MAUCRSA and allows for only one type of license (Type 11- Full Distribution). The state regulations for MAUCRSA have now established different categories of distribution. Distribution is needed in all phases of cannabis businesses (cultivators, manufacturers and retailers), including: transporting cannabis; arranging for laboratory testing; conducting quality assurance review of cannabis goods to ensure they comply with all packaging and labeling requirements storage of cannabis goods; and, collecting and paying taxes.

The state now allows various types of distribution, including:

- Transport only (Type 13): Transports cannabis, no coordinating labs, no collecting taxes, and no transport to retail allowed, unless immature plants and seeds from a nursery.
- Distribution (Type 11): allows all distribution for other licensed cannabis operators.
- Self-Distribution (Type 11): allows for distribution of cannabis and cannabis goods produced by the same business as the distributor.

Recommendation: Allow for all distribution types as the state. To support local smaller operators, allow permitted cultivators to obtain self-distribution.

7. **Expand Distribution Zoning.** Currently Distribution is only allowed in the following Industrial zoning districts: MP (Business Park), M1(Limited Urban Industrial), M2 (Heavy Industrial)

Recommendation: Expand all distribution types in all commercial zones and include M3 (Light Rural Industrial) to minimize the distances for hauling cannabis goods and

products. It would expand the opportunities for these mandated and much needed services to avoid over-concentration by limiting to industrial zones.

8. **Continue to Allow Cannabis Events.** Sonoma County has long been a destination for cannabis events, which have drawn thousands of tourists to the area. The state has created a new events license category that may host events at county fairgrounds or district agricultural association. Only persons aged 21 and older are allowed to purchase cannabis from retail or microbusiness licensees. The state also allows for onsite consumption at licensed cannabis events; however, no alcohol or tobacco can be consumed. Cannabis events are still required to obtain local authorization. With the history of successful cannabis events, the County would benefit from continuing to allow cannabis events.

Recommendation: Allow cannabis event permits.

9. **Allow Non-storefront Delivery.** With the state’s emergency regulations now available, it is clear that non-storefront delivery is allowed under a retail license. As with all licenses, the state requires a brick and mortar premises for non-storefront delivery retail operations. These operations are not open to the public for onsite sales, and therefore should be allowed in a wider variety of zones than storefront retail establishments. Many costumers appreciate and need delivery for a variety of reasons. Allowing non-storefront delivery would add to the options for customers as well as add more tax revenue from increased sales.

Recommendation: Allow non-storefront delivery in commercial and industrial zones.

10. **S Type for Shared Manufacturing Facilities.** In March, the state released new emergency regulations for S Type facilities. This S license would permit a licensed manufacturer to offer shared used of the facility to another opeator. The new regulations require the primary permit holder to first obtain a manufacturing license (Type 7, 6, or N) and then obtain local authorization for the shared operator. Then the operator would apply to the state for a shared license, which permits solventless oil-based extractions, infusions and packaging by the shared licensee. Only one shared licensee may operate in the shared premises at a time; however, shifts may stagger to allow for multiple shared licensees.

This new S Type license is intended to help keep costs down for small businesses and to allow for more operators to have manufactured products. Under the collective model, many products were made by small operators. From tinctures to cookies, products from small operators have helped build the cannabis industry. Many of these small collectives have been displaced in the new commercial model. Allowing shared facilities in Sonoma

County, would help small operators find space and diversify the types of operations in the area.

Recommendation: Allow S Type facilities in line with state rules.

11. Allow Microbusiness Permits. When Sonoma County drafted their cannabis regulations in December of 2016, they were based on the newly implemented state regulations (AB 266, AB243 & SB643) which passed in October of 2015. These state laws did not include the microbusiness model. It wasn't until the passage of Proposition 64 by voters in November of 2016 that this business model was introduced for adult recreational use. Since that time, the emergency regulations and MAUCRSA all for Microbusiness licensing, and it makes sense that the County of Sonoma adopt policy that reflects the new permit types available by the state.

Since the passage of SB420 by State representatives, collectives have formed where multiple patients share their resources often through a retail facility. The idea of seed to sale falls under both the collective model and the Microbusiness. Allowing businesses to operate the full spectrum of cultivation, manufacturing, distribution, and sales will ultimately allow older businesses that were structured this way to flourish.

As more and more of the agricultural crops in the United States are supplemented financially for the public to afford food, less and less farmers are finding incentives to continue producing. The exception to this model is Farm to Table Trend, which in Sonoma County, draws elite "foodies" to have the experience of knowing where their food comes from. If we apply this to cannabis in the same way, Micro-business may be one of the most successful cannabis models for people seeking the experience of knowing that products they consume are safe.

Microbusiness is very similar to wine tasting rooms and micro brewery's that currently exist in Sonoma County. Tourists travel from all over the world to have the boutique experience of visiting the location their favorite beer or wine are produced. Sonoma County is known for the diverse agricultural crops cultivated, as the micro climate is incomparable. Producing Sonoma grown cannabis, at a location where the cultivation can be observed, as well at the extraction and production methods, would further provide education to the visitor about the unique cannabis grown in this region.

Under state rules, a licensee can qualify for a Microbusiness if, on the same parcel, they are operating three of the four following permit types: cultivation, manufacturing, distribution, or retail. However, as described below, Sonoma County's current cannabis ordinance provides very limited combinations required for microbusinesses state licensing.

Sonoma County Cannabis Zoning

Retail Facilities are allowed at	C1 C2 LC
Distribution Facilities are allowed at	MP M1 M2
Cultivation Facilities are allowed at	
Mixed light	LIA LEA DA RRD
Indoor	LIA LEA DA RRD MP M1 M2 MP
Outdoor	LIA LEA DA RRD
Manufacturing Facilities are allowed at	MP M1 M2 M3

Recommendations:

- a. Small Business, roll out plan, application, with phase in process. Submit full Microbusiness Application, with timeline to open each of the four departments
- b. Delivery should qualify as retail under microbusiness.
- c. Identify which zones may be appropriate for which type of Microbusiness combinations
- d. Consumption: (1) allow consumption onsite; (2) allow consumption in limited area on the premises

12. Processor License. In order for cultivators to process (dry, cure, trim, package) their cannabis, significant investment is required to upgrade structures, including costly infrastructure such as sprinklers and ADA restrooms. The state now offers a processor license type for cultivators to bring their cannabis to for processing. This type of business would be beneficial to the local operators who cannot afford to build processing facilities on their permitted properties.

Recommendation: Allow processing licenses on parcels zoned agricultural and industrial.

13. Clarify Permit Renewal Process and Fees. At this time, cannabis permits in Sonoma County are annual. The current ordinance does not clarify the process or costs to renew a cannabis permit. With permits starting to be issued, the uncertainty about renewal makes it difficult for businesses to develop their operations or attract investor funds. If operators are in good standing, their permits should be renewed through a less rigorous process that costs less than the initial application.

Recommendation: Provide a clear process for permit renewal that reflects a lesser amount of scrutiny and costs less due to reduced staff time.