



**CITY OF DESERT HOT SPRINGS**  
**SPECIAL MEETING OF THE CITY COUNCIL**

**AGENDA**

**JUNE 30, 2020**  
**2:00 PM**

**VIA VIDEOCONFERENCE**  
**Desert Hot Springs, California**

---

**Notice Regarding COVID-19 and Public Participation at City Council Meetings**

Pursuant to California Governor Newsom's Executive Orders N-25-20 issued on March 4, 2020 and N-29-20 issued on March 18, 2020, the City Council regular meeting will be conducted remotely through Zoom and broadcast live on the City's YouTube channel.

Pursuant to the Executive Orders, and to ensure the health and safety of the public by limiting human contact that could spread the COVID-19 virus, the Carl May Center/Council Chamber will not be open for the meeting. The City Council and Staff will be participating remotely and will not be physically present in the Council Chamber.

**Watch the Meeting Live**

---

- [City of Desert Hot Springs YouTube Channel](#)

**For Public Comment**

---

If you wish to speak on the agenda item, you can access the meeting remotely through the following options:

- **Participate via Zoom**  
[CLICK HERE](#) to register  
 (URL: [https://us02web.zoom.us/webinar/register/WN\\_W4ZY-5kBQMSWpIKiqJwEgA](https://us02web.zoom.us/webinar/register/WN_W4ZY-5kBQMSWpIKiqJwEgA))
- **Submit Comments in Writing**  
 You may also submit your comments in writing via email to the City Clerk at [cityclerk@cityofdhs.org](mailto:cityclerk@cityofdhs.org). **To give the City Clerk adequate time to compile, please submit no later than 12:00 P.M. on June 30, 2020.** All written public comments will be distributed to the City Council and included as part of the record.

The City of Desert Hot Springs thanks you in advance for taking all precautions to prevent the spreading of the COVID-19 virus.

NOTICE IS HEREBY GIVEN, as provided by Government Code Section 54956, that the City Council has called a special meeting for the purpose stated below:

**CALL TO ORDER**

**ROLL CALL**

**PLEDGE OF ALLEGIANCE**

**PUBLIC COMMENTS**

*Public comments will be considered under each agenda item. PLEASE STATE YOUR NAME AND CITY OF RESIDENCE FOR THE RECORD.*

*Comments are limited to three (3) minutes per speaker. All comments are to be directed to the City Council and shall be devoid of any personal attacks. Members of the public are expected to maintain a professional, courteous decorum during public comments.*

**DISCUSSIONS / PRESENTATIONS**

**1. Proposed Ordinance of the Desert Hot Springs City Council Amending Chapter 17.180 allowing Light Distribution Uses for Marijuana Storefront Retail Facilities.**

*Doria Wilms, Assistant City Manager*

**Recommendation:** Discuss and provide staff direction on proposed Ordinance amending Chapter 17.180 allowing Light Distribution Uses for Marijuana Storefront Retail Facilities.

**2. Proposed Ordinance of the City of Desert Hot Springs Adding Chapter 17.230, "Cannabis Hotels" of Title 17 "Zoning" of the Desert Hot Springs Municipal Code Regarding Regulation of Cannabis Use at Hospitality Businesses.**

*Doria Wilms, Assistant City Manager*

**Recommendation:** Discuss and provide staff direction on proposed Ordinance adding Chapter 17.230 "Cannabis Hotels" of Title 17 "Zoning" of the Desert Hot Springs Municipal Code Regarding Regulations of Cannabis Use at Hospitality Businesses.

**3. Proposed Ordinance of the City of Desert Hot Springs Amending Certain Sections of Chapter 17.180 Allowing and Setting Parameters for Marijuana Entertainment Facilities.**

*Doria Wilms, Assistant City Manager*

**Recommendation:** Discuss and provide staff direction on amending certain sections of Chapter 17.180 allowing and setting parameters for Marijuana Entertainment Facilities.

4. **Assessment of Current Cannabis Taxation**  
*Doria Wilms, Assistant City Manager*  
**Recommendation:** Receive and File

**ADJOURN SPECIAL MEETING**

**NOTICES**

**Title 2**

In an effort to comply with the requirements of Title 2 of the Americans With Disabilities Act of 1990, the City of Desert Hot Springs requires that any person in need of any type of special equipment, assistance, or accommodation(s) in order to communicate at a City public meeting, must inform the City Clerk a minimum of 72 hours prior to the scheduled meeting to enable the City to make reasonable arrangements.

**SB 343**

In accordance with California Government Code Section 54957.5, any writing or document that is a public record, relates to an open session agenda item, and is distributed less than 72 hours prior to a regular meeting will be made available for public inspection in the Office of the City Clerk at City Hall during normal business hours at 65950 Pierson Boulevard, Desert Hot Springs, CA 92240.

If, however, the document or writing is not distributed until the regular meeting to which it relates, then the document or writing will be made available to the public at the location of the meeting, as listed on this agenda at 11711 West Drive, Desert Hot Springs, CA 92240.



---

**REPORT TO THE CITY COUNCIL**


---



**DATE:** June 30, 2020

**TITLE:** Proposed Ordinance of the Desert Hot Springs City Council Amending Chapter 17.180 allowing Light Distribution Uses for Marijuana Storefront Retail Facilities.

**Prepared by:** Doria Wilms, Assistant City Manager

---

### **RECOMMENDATION**

**Discuss and provide staff direction on proposed Ordinance amending Chapter 17.180 allowing Light Distribution Uses for Marijuana Storefront Retail Facilities.**

### **DISCUSSION**

The City of Desert Hot Springs ("City") is a charter city organized pursuant to Article XI of the California Constitution. Chapter 5.50 "Medical Marijuana Facilities Regulatory Permit," of the Desert Hot Springs Municipal Code ("DHSMC") establishes standards for granting permits to Marijuana Facilities within the City. Chapter 17.180, of the DHSMC establishes zoning regulations and development standards for Marijuana Facilities, as that term is defined, within the City. Currently, the DHSMC only allows cannabis retail sales within the Commercial Districts of the City and refers to such establishments as "Storefront Retail Facilities. Per the DHSMC, Storefront Retail Facilities are allowed in Commercial Zones with a Conditional Use Permit and a Regulatory Permit.

Currently Storefront Retail Facilities are permitted to conduct cannabis retail operations, deliver cannabis products to an end user consumer, conduct light manufacturing, and cultivate up to 99 mature flowering plants.

The City has been contacted by owners of Storefront Retail Facilities to request that light distribution be added as an allowable use to the Storefront Retail Facility Permit.

Light Distribution means the procurement, sale, or transport of cannabis or cannabis products either within the City limits, or to and from the City from a place outside the City limits, from a City-permitted and licensed Storefront Retail Facility to a permitted business location of another licensed entity, subject to State laws and regulations set forth in the DHSMC.

Adding light distribution to the Storefront Retail Facility Permit would allow Storefront Retailers to transfer excess cannabis product that has been cultivated onsite to be sold and distributed to another licensee. This allowance would encourage the safe sale and transfer of excess cultivated cannabis products to responsible licensees rather than running the risk of the excess cannabis product being pushed out into the black market.

Should the City Council direct staff to bring forth this item as drafted to the Planning Commission and ultimately the City Council for action, approved Storefront Retail Facilities with a City approved Conditional Use Permit and in compliance with all local and State laws may, at their discretion, add a light distribution use to their current Storefront Retail Facility so long as they comply with all of the following;

1. A maximum number of one (1) unmarked vehicle shall be used to distribute products.
2. The vehicle mentioned above must have a designated and marked parking space.
3. All State and local laws and regulations must be complied with at all times.

**FISCAL IMPACT**

Unknown at this time.

**EXHIBIT(S)**

1. Proposed Ordinance

**ORDINANCE NO. \_\_\_\_****AN ORDINANCE OF THE CITY COUNCIL OF THE CITY OF DESERT HOT SPRINGS, AMENDING CHAPTER 17.180 ALLOWING LIGHT DISTRIBUTION USES FOR MARIJUANA STOREFRONT RETAIL USES.**

**WHEREAS**, the City of Desert Hot Springs (“City”) is a charter city organized pursuant to Article XI of the California Constitution; and

**WHEREAS**, Chapter 5.50 “Medical Marijuana Facilities Regulatory Permit,” of the Desert Hot Springs Municipal Code (“DHSMC”) establishes standards for granting permits to Marijuana Facilities within the City; and

**WHEREAS**, Chapter 17.180, of the DHSMC establishes zoning regulations and development standards for Marijuana Facilities, as that term is defined, within the City;

**WHEREAS**, currently, the DHSMC only allows cannabis retail sales within the Commercial Districts of the City and refers to such establishments as “Storefront Retail Facilities;” and

**WHEREAS**, per the DHSMC, Storefront Retail Facilities are allowed in Commercial Zones with a Conditional Use Permit and a Regulatory Permit; and

**WHEREAS**, the City has been contacted by owners of Storefront Retail Facilities to request a limited distribution in order to allow them to sell extra product that has not been sold; and

**WHEREAS**, these persons desire to have a “light distribution” use in order to move their products; and

**WHEREAS**, currently, the DHSMC does not allow Storefront Retail Facilities to “distribute” their products; and

**WHEREAS**, therefore, City Council action is needed to allow for Storefront Retail Facilities use of light distribution; and use activities; and

**WHEREAS**, the City Council finds that the adoption of this ordinance is categorically exempt from environmental review under the California Environmental Quality Act (CEQA) pursuant to CEQA Guidelines section 15061(b)(3) because it can be seen with certainty that there is no possibility that the adoption of this Ordinance in question may have a significant effect on the environment; and

**WHEREAS**, the Planning Commission held a duly noticed hearing on this Ordinance and recommended that the City Council adopt same; and

**WHEREAS**, this Chapter is compatible with the general objectives of the General Plan and any applicable specific plan; and

**WHEREAS**, this Ordinance promotes the City’s public health, safety and welfare.

**NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF DESERT HOT SPRINGS DOES ORDAIN AS FOLLOWS:**

**Section 1.            RECITALS.**

The Recitals are hereby incorporated by this reference.

**Section 2.            AMENDING SECTION 17.180.030 OF CHAPTER 17.180 OF THE DESERT HOT SPRINGS MUNICIPAL CODE**

Chapter 17.180.030 of the Desert Hot Springs Municipal Code shall be amended in part to add as follows:

**Chapter 17.180**

**“Light Distribution” means the limited procurement, sale, or transport of cannabis or cannabis products either within the City limits, or to and from the City from a place outside the City limits, from a City-permitted and licensed Storefront Retail Facility to a permitted business location of another licensed entity subject to State laws and regulations and subject to the provisions of this Chapter and the City’s Municipal Code.**

**Section 3.            AMENDING SECTION 17.180.040 OF CHAPTER 17.180 OF THE DESERT HOT SPRINGS MUNICIPAL CODE**

Section 17.180.040 of Chapter 17.180 of the Desert Hot Springs Municipal Code shall be amended to read as follows:

**17.180.40 Marijuana Storefront Retail Facilities**

- A. Permitted Locations. Marijuana storefront retail facilities shall only be located in any Commercial District in the City.
- B. Number of Plants. Storefront retail facilities shall not cultivate more than 99 mature flowering marijuana plants on site at any one time.

C. Conditional Use Permit/Regulatory Permit Required. Storefront retail facilities shall obtain both a City-issued Conditional Use Permit and Regulatory Permit.

**D.** Approved storefront retail facilities operating with a City-approved Conditional Use Permit and in compliance with all local and State laws may, at their discretion, add a light manufacturing use and also become a light manufacturing facility to their current storefront retail facility.

**E. Approved storefront retail facilities operating with a City-approved Conditional Use Permit and in compliance with all local and State laws may, at their discretion, add a light distribution use to their current storefront retail facility. Any and all light distribution uses must comply with all of the following**

**1. A maximum number of one (1) unmarked vehicle shall be used to distribute products.**

**2. The vehicle mentioned above must have a designated and marked parking space.**

**3. All State and local laws and regulations must be complied with at all times.**

**F.** Notwithstanding subsections ~~C~~ above, any and all light manufacturing facilities must comply with applicable State law and regulations, including the California Environmental Quality Act (“CEQA”).

**G.** Storefront retail facilities must comply with all local and State laws as it pertains to such use at all times, which certain applicable laws are currently set forth in Title 16 Code of Regulations, Sections 5400 through 5413, as may be amended.

**Section 3. AMENDING THE LAND USE TABLE OF THE DESERT HOT SPRINGS MUNICIPAL CODE**

The land use table shall reflect that Light Distribution shall be allowed as a use solely in conjunction with Storefront Retail Facilities with a conditional use permit in the Commercial districts.

**Section 4. SEVERABILITY**

That the City Council declares that, should any provision, section, paragraph, sentence or word of this ordinance be rendered or declared invalid by any final court action in a court of competent jurisdiction or by reason of any preemptive legislation, the remaining provisions, sections, paragraphs, sentences or words of this ordinance as hereby adopted shall remain in full force and effect.

**Section 5. AMENDING OF BAIL SCHEDULE**

That the City Attorney's Office is hereby directed to determine whether this ordinance necessitates amendment of the City's Bail Schedule and to cause such

necessary amendments to be made and filed with the local branches of the Superior Court of the County of Riverside.

**Section 6.**                    **EXECUTION AND CERTIFICATION**

That the City Clerk is directed to do all things necessary to cause the execution of this ordinance immediately upon its adoption and shall thereafter certify to the passage of this ordinance and cause the same to be published according to law.

**Section 7.**                    **AMENDMENT**

That this ordinance may be amended from time to time by the City Council and that in the event the State of California passes an adult use marijuana initiative, that the City Council can amend this Ordinance to address said use in the City of Desert Hot Springs.

**Section 8.**                    **EFFECTIVE DATE**

That this ordinance shall take effect thirty (30) days after its second reading by the City Council.

DRAFT

That the foregoing Ordinance was approved and adopted at a meeting of the City Council held on \_\_\_\_\_, 2020, by the following vote:

**AYES:**  
**NOES:**  
**ABSENT:**  
**ABSTAIN:**  
**ATTEST:**

\_\_\_\_\_  
Scott Matas, Mayor

**ATTEST:**

\_\_\_\_\_  
Jerryl Soriano, City Clerk

**APPROVED AS TO FORM:**  
Jennifer A. Mizrahi, City Attorney

\_\_\_\_\_  
**By:**



**REPORT TO THE CITY COUNCIL**



**DATE: June 30, 2020**

**TITLE: Proposed Ordinance of the City of Desert Hot Springs Adding Chapter 17.230, "Cannabis Hotels" of Title 17 "Zoning" of the Desert Hot Springs Municipal Code Regarding Regulation of Cannabis Use at Hospitality Businesses.**

**Prepared by: Doria Wilms, Assistant City Manager**

**RECOMMENDATION**

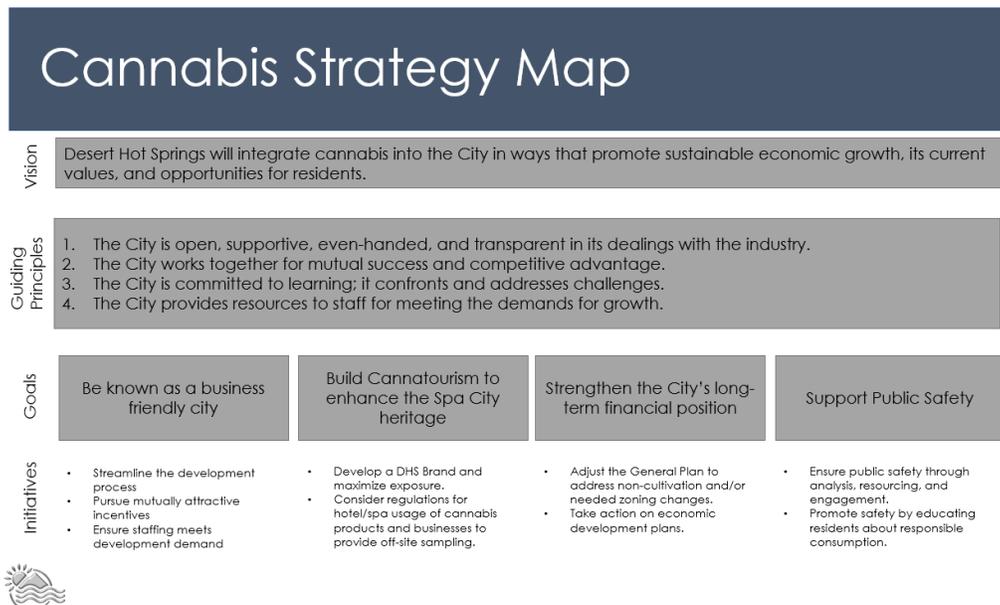
**Discuss and provide staff direction on proposed Ordinance adding Chapter 17.230 "Cannabis Hotels" of Title 17 "Zoning" of the Desert Hot Springs Municipal Code Regarding Regulations of Cannabis Use at Hospitality Businesses.**

**DISCUSSION**

During the June 5, 2018 City Council Study Session on Cannabis, Staff was directed to work with a moderator to facilitate the development of a unified City Council vision regarding cannabis. As part of the data gathering process, Staff was also directed to form a Cannabis Task Force comprised of cannabis industry experts to create proposals for City Council consideration. The proposals were reviewed, along with City Council's ideas, during a Cannabis Strategic Planning Session held on October 24, 2018. The Cannabis Strategic Planning Session resulted in action items that formulate proposed initiatives for strategies to support the City Council's intended vision.

During the March 19, 2019 City Council Study Session on the Cannabis Strategic Plan, City Council unanimously agreed to approve the Cannabis Strategic Plan with the understanding that certain items would return in the future requiring City Council approval.

The Cannabis Strategic Plan produced a Strategy Map outlining the City's Vision, Guiding Principles, Goals and Initiatives for growing and developing the Cannabis Industry in the City of Desert Hot Springs.



One of the Goals of the City Council’s Cannabis Strategic Plan is to “Build Cannatourism to enhance the Spa City heritage”, with an underlining initiative to “Consider regulations for hotel/spa usage of cannabis products and businesses to provide off-site sampling.”

The proposed Ordinance adding Chapter 17.230 “Cannabis Hotels” of Title 17 “Zoning” of the Desert Hot Springs Municipal Code regarding regulations of cannabis use at hospitality businesses is being brought before the City Council in line with the Cannabis Strategic Plan for discussion.

The purpose of Chapter 17.230 is to regulate all hotels in which cannabis may be sold and consumed on the premises. This chapter is intended to protect the public health, safety, and welfare, and additionally, to mitigate the cost and burden on the City stemming from local control, oversight, and regulation of hotels that provide cannabis.

“Marijuana Hotel Facility” means a hotel, motel, or other transient lodging facility as defined by Chapter 3.20 of this Code that possesses a permit issued pursuant to this chapter. “Patron” means a registered guest of a hotel or motel. Patrons shall not include any visitors or customers who do not register as guests.

The proposed Ordinance would allow Marijuana Hotel Facilities the ability to operate in the following fashion;

**1. Permitted Locations.**

Marijuana Hotel Facilities shall only be located in any Commercial District, Mixed-Use Corridor District, or Visitor-Serving Mixed-Use District in the City.

**2. Marijuana Hotel Facilities shall not:**

- a. Store more than \$ [redacted] in marijuana product on-site at any given time.
- b. Allow any on-duty employee to consume any marijuana or marijuana products on the premises.
- c. Admit entry into the premises, including both indoors and outdoors, any person who is under twenty-one years of age.
- d. Sell, serve, or permit the sale or serving of marijuana or marijuana products to persons other than patrons.
- e. Distribute any free samples of marijuana or marijuana products on the premises.
- f. Sell, serve, or permit the sale or serving of marijuana or marijuana products to patrons who are visibly intoxicated.
- g. Permit any public nuisances, including any noise violations or other offenses to the public peace and safety.
- h. Allow smoking or vaping of any product outside of designated and marked smoking areas.
- i. Display any marijuana product the hotel is selling, and instead shall only provide a menu of marijuana products to patrons.

**3. Marijuana Hotel Facilities shall:**

- a. Create and maintain an active account within the state's track and trace system required by Business and Professions Code Section 26067 prior to commencing any commercial marijuana activity.
- b. Ensure that the consumption of marijuana or marijuana products is not visible from the outside of the business.
- c. Comply with any other conditions specified in their Marijuana Hotel Facilities Conditional Use Permit and Regulatory Permit.

- d. Ensure that marijuana consumption areas shall have adequate security and lighting for the safety of patrons and to protect the premises from theft at all times.
  - e. Comply with all state alcohol requirements
  - f. Notify patrons verbally and through posting of a sign in a conspicuous location that entry into the premises by persons under the age of twenty-one is prohibited.
  - g. Provide marijuana or marijuana products to a patron in an amount reasonable for on-site consumption and consistent with personal possession and use limits allowed by the state.
  - h. Employ a person to be on the premises to supervise employees and patrons at all times during business hours.
  - i. Install an odor absorbing ventilation and exhaust system so that odor generated inside the premises is not detected outside the premises.
  - j. All designated smoking area shall be 50 feet from any property line (or residential use).
  - k. Train its employees about the various marijuana or marijuana products it sells, including potency of the products, absorption time, and effects of the products. Employees shall educate all customers as to these products in an effort to ensure responsible consumption.
  - l. Place and properly maintain solid waste receptacles and recycling bins, in sufficient numbers and locations to service the needs of the proposed use at peak business periods.
  - m. Allow patrons to take cannabis or cannabis products that are partially consumed offsite.
- 4. Conditional Use Permit/Regulatory Permit Required.**
- a. No hotel/motel or other transient lodging facility as defined in Chapter 3.20 may sell, offer to sell, prepare for sale, or otherwise provide marijuana or marijuana products to patrons, nor allow the onsite consumption of marijuana or marijuana products by patrons, without first obtaining both a City-issued conditional use permit and regulatory permit. The number of Conditional Use Permits issued for Marijuana Hotel Facilities shall be above and beyond the limited number of conditional use permits allowed for Storefront Retail Facilities.
- 5. State and Local Laws**
- a. Marijuana Hotel Facilities must comply with all local and State law as it pertains to any and all uses at all times.
- 6. Local Taxes**
- a. Marijuana Hotel Facilities shall be subject to all applicable local taxes, including but not limited to those in Chapter 3.34, which shall be in addition to any Transient Occupancy Taxes.

**FISCAL IMPACT**

Unknown at this time.

**EXHIBIT(S)**

- 1. Proposed Ordinance
- 2. Cannabis Strategic Plan Strategy Map



**ORDINANCE NO. \_\_\_\_**

**AN ORDINANCE OF THE CITY COUNCIL OF THE CITY OF DESERT HOT SPRINGS, CALIFORNIA ADDING SECTIONS TO CHAPTER 17.180 “CANNABIS HOTELS” OF TITLE 17 “ZONING” OF THE DESERT HOT SPRINGS MUNICIPAL CODE REGARDING REGULATION OF CANNABIS USE AT HOSPITALITY BUSINESSES**

**WHEREAS**, the City of Desert Hot Springs (“City”) is a charter city organized pursuant to Article XI of the California Constitution; and

**WHEREAS**, the City Council finds that social consumption of cannabis is growing in popularity and a desired activity; and

**WHEREAS**, the City Council finds that social consumption should be regulated to ensure the safety of customers and to maintain the public safety; and

**WHEREAS**, the City Council desires to authorize local hotels and motels, under specified conditions, to sell cannabis and cannabis products to patrons and allow consumption of such products onsite; and

**WHEREAS**, the City Council finds that this Ordinance is consistent with the General Plan; and

**WHEREAS**, the City Council finds that this Ordinance would promote the public interest, health, safety, convenience, or welfare of the City; and

**WHEREAS**, the City’s Planning Commission held a public hearing on [DATE], 2020, considered this Ordinance, and made a positive recommendation to the City Council; and

**WHEREAS**, on \_\_, the City Council concluded the public hearings and considered this Ordinance; and

**WHEREAS**, the City Council determines that this Ordinance is exempt from the California Environmental Quality Act (“CEQA”) pursuant to Section 15061(b)(3) of the CEQA Guidelines, because this Ordinance does not have the potential for causing a significant effect on the environment and it can be seen with certainty that there is no possibility that the activity in question may have a significant effect on the environment; and

**NOW, THEREFORE, BE IT ORDAINED** by the City Council of the City of Desert Hot Springs as follows:

**Section 1.            RECITALS**

That the foregoing recitals are true and correct and are herein adopted by this reference.

**Section 2.            ADDITION OF section 17.180.085 “CANNABIS HOTELS” OF TITLE 17 “ZONING” OF THE DESERT HOT SPRINGS MUNICIPAL CODE AND AMENDING SECTION 17.180.030 “DEFINITIONS”**

Chapter 17.180.085 (“Cannabis Hotels”) of Title 17 (“Zoning”) is hereby added to read in its entirety as follows, and Section 17.180.030 “Definitions” shall be amended to add the following definition:

**17.180.030 Definitions.**

**“Marijuana Hotel Facility” means a hotel, motel, or other transient lodging facility as defined by Chapter 3.20 of this Code that possesses a permit issued pursuant to this chapter. “Patron” means a registered guest of a hotel or motel. Patrons shall not include any visitors or customers who do not register as guests.**

**17.180.085 Marijuana Hotel Facilities**

- a Permitted Locations. Marijuana Hotel Facilities shall only be located in any Commercial District, Mixed-Use Corridor District, or Visitor-Serving Mixed Use District in the City.**
- c. Marijuana Hotel Facilities shall not:**
  - 1. Store more than \$            in marijuana product on-site at any given time.**
  - 2. Allow any on-duty employee to consume any marijuana or marijuana products on the premises.**
  - 3. Admit entry into the premises, including both indoors and outdoors, any person who is under twenty-one years of age.**
  - 4. Sell, serve, or permit the sale or serving of marijuana or marijuana products to persons other than patrons.**
  - 5. Distribute any free samples of marijuana or marijuana products on the premises.**
  - 6. Sell, serve, or permit the sale or serving of marijuana or marijuana products to patrons who are visibly intoxicated.**
  - 7. Permit any public nuisances, including any noise violations or other offenses to the public peace and safety.**
  - 8. Allow smoking or vaping of any product outside of designated and marked smoking areas.**
  - 9. Display any marijuana product the hotel is selling, and instead shall only provide a menu of marijuana products to patrons.**

**d. Marijuana Hotel Facilities shall:**

- 1. Create and maintain an active account within the state's track and trace system required by Business and Professions Code Section 26067 prior to commencing any commercial marijuana activity.**
- 2. Ensure that the consumption of marijuana or marijuana products is not visible from the outside of the business.**
- 3. Comply with any other conditions specified in their Marijuana Hotel Facilities Conditional Use Permit and Regulatory Permit.**
- 4. Ensure that marijuana consumption areas shall have adequate security and lighting for the safety of patrons and to protect the premises from theft at all times.**
- 5. Comply with all state alcohol requirements**
- 6. Notify patrons verbally and through posting of a sign in a conspicuous location that entry into the premises by persons under the age of twenty-one is prohibited.**
- 7. Provide marijuana or marijuana products to a patron in an amount reasonable for on-site consumption and consistent with personal possession and use limits allowed by the state.**
- 8. Employ a person to be on the premises to supervise employees and patrons at all times during business hours.**
- 9. Install an odor absorbing ventilation and exhaust system so that odor generated inside the premises is not detected outside the premises.**
- 10. All designated smoking area shall be 50 feet from any property line (or residential use).**
- 11. Train its employees about the various marijuana or marijuana products it sells, including potency of the products, absorption time, and effects of the products. Employees shall educate all customers as to these products in an effort to ensure responsible consumption.**
- 12. Place and properly maintain solid waste receptacles and recycling bins, in sufficient numbers and locations to service the needs of the proposed use at peak business periods.**
- 13. Allow patrons to take cannabis or cannabis products that are partially consumed offsite.**

**e. Conditional Use Permit/Regulatory Permit Required. No hotel/motel or other transient lodging facility as defined in Chapter 3.20 may sell, offer to sell, prepare for sale, or otherwise provide marijuana or marijuana products to patrons, nor allow the onsite consumption of marijuana or marijuana products by patrons, without first obtaining both a City-issued conditional use permit and regulatory permit. The number of Conditional Use Permits issued for Marijuana Hotel Facilities shall be above and beyond the limited number of conditional use permits allowed for Storefront Retail Facilities.**

- f. Marijuana Hotel Facilities must comply with all local and State law as it pertains to any and all uses at all times.**
- g. Marijuana Hotel Facilities shall be subject to all applicable local taxes, including but not limited to those in Chapter 3.34, which shall be in addition to any Transient Occupancy Taxes.**

**Section 3. SEVERABILITY**

That, should any provision, section, paragraph, sentence or word of this ordinance be rendered or declared invalid by any final court action in a court of competent jurisdiction or by reason of any preemptive legislation, the remaining provisions, sections, paragraphs, sentences or words of this ordinance as hereby adopted shall remain in full force and effect.

**Section 4. GENERAL PLAN CONSISTENCY FINDINGS**

The City Council finds this amendment is consistent and compatible with the General Plan.

**Section 5. GENERAL FINDINGS**

The City Council finds this Ordinance is not detrimental to the public interest, health, safety, convenience, or welfare of the City.

**Section 6. REPEAL OF CONFLICTING PROVISIONS**

That all the provisions of the Municipal Code as heretofore adopted by the City of Desert Hot Springs that are in conflict with the provisions of this ordinance are hereby repealed.

**Section 7. AMENDING OF BAIL SCHEDULE**

That the City Attorney’s Office is hereby directed to determine whether this ordinance necessitates amendment of the City’s Bail Schedule and to cause such necessary amendments to be made and filed with the local branches of the Superior Court of the County of Riverside.

**Section 8. EFFECTIVE DATE**

That this ordinance shall be effective thirty days after the second reading of the ordinance.

**Section 9. CERTIFICATION**

That the City Clerk shall certify to the passage of this ordinance and shall cause the same to be published according to law.

[REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK]

draft

**PASSED AND ADOPTED** by the City Council of the City of Desert Hot Springs at a regular meeting held on the \_\_\_ day of \_\_\_\_\_, 2020 by the following vote:

Ayes:

Noes:

Abstain:

Absent:

\_\_\_\_\_  
Scott Matas, Mayor

**ATTEST:**

\_\_\_\_\_  
Jerryl Soriano, City Clerk

**APPROVED AS TO FORM:**

\_\_\_\_\_  
Jennifer A. Mizrahi, City Attorney

draft

# Cannabis Strategy Map

Desert Hot Springs will integrate cannabis into the City in ways that promote sustainable economic growth, its current values, and opportunities for residents.

Vision

1. The City is open, supportive, even-handed, and transparent in its dealings with the industry.
2. The City works together for mutual success and competitive advantage.
3. The City is committed to learning; it confronts and addresses challenges.
4. The City provides resources to staff for meeting the demands for growth.

Guiding Principles

Support Public Safety

Strengthen the City's long-term financial position

Build Cannatourism to enhance the Spa City heritage

Be known as a business friendly city

- Initiatives
- Streamline the development process
  - Pursue mutually attractive incentives
  - Ensure staffing meets development demand
  - Develop a DHS Brand and maximize exposure.
  - Consider regulations for hotel/spa usage of cannabis products and businesses to provide off-site sampling.
  - Adjust the General Plan to address non-cultivation and/or needed zoning changes.
  - Take action on economic development plans.
  - Ensure public safety through analysis, resourcing, and engagement.
  - Promote safety by educating residents about responsible consumption.





---

**REPORT TO THE CITY COUNCIL**


---



**DATE:** June 30, 2020

**TITLE:** Proposed Ordinance of the City of Desert Hot Springs Amending Certain Sections of Chapter 17.180 Allowing and Setting Parameters for Marijuana Entertainment Facilities.

**Prepared by:** Doria Wilms, Assistant City Manager

---

**RECOMMENDATION**

**Discuss and provide staff direction on amending certain sections of Chapter 17.180 allowing and setting parameters for Marijuana Entertainment Facilities.**

**DISCUSSION**

The City of Desert Hot Springs ("City") is a charter city organized pursuant to Article XI of the California Constitution. Chapter 5.50 "Medical Marijuana Facilities Regulatory Permit," of the Desert Hot Springs Municipal Code ("DHSMC") establishes standards for granting permits to Marijuana Facilities within the City. Chapter 17.180, of the DHSMC establishes zoning regulations and development standards for Marijuana Facilities, as that term is defined, within the City. Currently, the DHSMC only allows cannabis retail sales within the Commercial Districts of the City and refers to such establishments as "Storefront Retail Facilities. Per the DHSMC, Storefront Retail Facilities are allowed in Commercial Zones with a Conditional Use Permit and a Regulatory Permit.

The City has been contacted by several cannabis developers who wish to build cannabis-friendly entertainment facilities. Currently the DHSMC does not allow for Cannabis entertainment facilities and City Council discussion and direction is needed to move forward with the proposed Ordinance to amend certain sections of Chapter 17.180 to allow and set parameters for Marijuana Entertainment Facilities.

A Marijuana Entertainment Facility means any facility or location, the primary function of which is an entertainment use (such as a movie theater, bowling alley, concert venue, etc.), and at least one other of the following uses: a) Marijuana Store Front Retail Facility, and/or, b) on-site marijuana consumption venue.

The proposed Ordinance to amend certain sections of Chapter 17.180 for Marijuana Entertainment Facilities includes the following;

**1. Permitted Locations.**

Marijuana Entertainment Facilities shall only be located in any Commercial District (except the Commercial Downtown District), Industrial District or Mixed-Use Corridor District in the City.

**2. Marijuana Entertainment Facilities**

Marijuana Entertainment Facilities primary function shall be an entertainment use and must contain an entertainment use (such as a movie theater, bowling alley, concert venue), and at least one other of the following uses:

- a. Storefront Retail Facility, which facility complies with all terms and conditions in this Chapter, including all State and local laws. The Storefront Retail Facility shall enjoy all uses as provided in Section 17.180.045.
- b. On-site marijuana consumption facility, which shall comply with all of the following:

- a. On-site marijuana consumption facility shall not be attached to any Storefront Retail Facility and must be located on a separate premise, and otherwise comply with all State and local laws.
  - b. Marijuana Entertainment Facilities shall only sell marijuana products for on-site consumption only from within the facility.
  - c. Marijuana Entertainment Facilities shall not sell marijuana products for any Off-site sales from within the facility
- 3. Conditional Use Permit/Regulatory Permit Required.**  
 Entertainment Facilities shall obtain both a City-issued conditional use permit and regulatory permit. The number of Conditional Use Permits issued for Entertainment Facilities shall be above and beyond the limited number of conditional use permits allowed for Storefront Retail Facilities.
- 4. State and Local Laws**  
 Marijuana Entertainment Facilities must comply with all local and State law as it pertains to any and all uses at all times.
- 5. Local Taxes**  
 The Storefront Retail Facility and/or the on-site marijuana consumption facility, or any other marijuana component of the Entertainment Permit shall be subject to all applicable local taxes, including but not limited to those in Chapter 3.34.

**FISCAL IMPACT**

Unknown at this time.

**EXHIBIT(S)**

- 1. Proposed Ordinance

**ORDINANCE NO. \_\_\_\_**

**AN ORDINANCE OF THE CITY COUNCIL OF THE CITY OF DESERT HOT SPRINGS, AMENDING CERTAIN SECTIONS OF CHAPTER 17.180 ALLOWING AND SETTING PARAMETERS FOR MARIJUANA ENTERTAINMENT FACILITIES**

**WHEREAS**, the City of Desert Hot Springs (“City”) is a charter city organized pursuant to Article XI of the California Constitution; and

**WHEREAS**, Chapter 5.50 “Medical Marijuana Facilities Regulatory Permit,” of the Desert Hot Springs Municipal Code (“DHSMC”) establishes standards for granting permits to Marijuana Facilities within the City; and

**WHEREAS**, Chapter 17.180, of the DHSMC establishes zoning regulations and development standards for Marijuana Facilities, as that term is defined, within the City;

**WHEREAS**, currently, the DHSMC only allows cannabis retail sales within the Commercial Districts of the City and refers to such establishments as “Storefront Retail Facilities;” and

**WHEREAS**, per the DHSMC, Storefront Retail Facilities are allowed in Commercial Zones with a Conditional Use Permit and a Regulatory Permit; and

**WHEREAS**, the City has been contacted by several cannabis developers who wish to build a cannabis-friendly entertainment facility; and

**WHEREAS**, currently, the DHSMC does not have a Marijuana Entertainment Facilities; and

**WHEREAS**, therefore, City Council action is needed to allow for Marijuana Entertainment Facilities; and

**WHEREAS**, the City Council deems to allow Marijuana Entertainment Facilities uses as beneficial to the City inasmuch as the City will realize tax benefits, and it will also benefit the businesses to allow for such augmentation to their business models; and

**WHEREAS**, the City Council finds that the adoption of this ordinance is categorically exempt from environmental review under the California Environmental Quality Act (CEQA) pursuant to CEQA Guidelines section 15061(b)(3) because it can

be seen with certainty that there is no possibility that the adoption of this Ordinance in question may have a significant effect on the environment; and

**WHEREAS**, this Ordinance protects the public health, safety and welfare.

**WHEREAS**, the Planning Commission held a duly noticed hearing on this Ordinance and recommended that the City Council adopt same; and

**WHEREAS**, this Ordinance is compatible with the general objectives of the General Plan and any applicable specific plan; and

**WHEREAS**, this Ordinance protects the public health, safety and welfare.

**NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF DESERT HOT SPRINGS DOES ORDAIN AS FOLLOWS:**

**Section 1. RECITALS.**

The Recitals are hereby incorporated by this reference.

**Section 2. AMENDING SECTION 17.180.030 OF CHAPTER 17.180 OF THE DESERT HOT SPRINGS MUNICIPAL CODE**

Sections 17.180.030 of Chapter 17.180 of the Desert Hot Springs Municipal Code shall be amended to read as follows:

**17.180.030 Definitions.**

Words and phrases not specifically defined in this chapter shall have the meanings ascribed to them as follows.

When used in this Chapter, the following words shall have the meanings ascribed to them in this section. Any reference to California statutes includes any regulations promulgated thereunder and is deemed to include any successor or amended version of the referenced statute or regulatory provision. Words and phrases not specifically defined in this Chapter shall have the meanings ascribed to them by the following sources:

- a. The CUA of 1996 (California Health and Safety Code Section 11362.5), and as may be amended from time to time;
- b. The MMPA (California Health and Safety Code Sections 11362.7 through 11362.83);
- c. The MAUCRSA (Medicinal and Adult Use Cannabis Regulation and Safety Act), enacted on June 27, 2017, as may be amended from time to time.

**“Cannabis or Marijuana”** shall have the same meaning as provide in Health and Safety Code Section 11018, as amended (which code section used to define Marijuana). The terms Cannabis and Marijuana shall be used interchangeably in this Chapter.

**“Cannabis concentrate”** means cannabis that has undergone a process to concentrate one or more active cannabinoids, thereby increasing the product’s potency. Resin from granular trichomes from a cannabis plant is a concentrate for purposes of this division. A cannabis concentrate is not considered food, as defined by Section 109935 of the Health and Safety Code, or a drug, as defined by Section 109925 of the Health and Safety Code.

**“Cultivator”** shall mean Marijuana Facilities licensed as a Cultivation Site or as a Cultivator pursuant to California Business and Professions Code section 19300 et seq. or pursuant to California Business and Professions Code section 26000 et. seq.

**“Cultivation”** means any activity involving the planting, growing, harvesting, drying, curing, grading, or trimming of cannabis.

**“Delivery”** means the commercial transfer of cannabis or cannabis products from a state licensed distributor or retailer wherever located, to an adult twenty one years of age or older, qualified patient, or primary caregiver located in the City of Desert Hot Springs, and shall include the use of any technology platform that enables adults twenty one years of age or older, qualified patients, or primary caregivers located in Desert Hot Springs to arrange for or facilitate the commercial transfer of marijuana or marijuana products.

**“Distribution”** means the procurement, sale, or transport of cannabis or cannabis products either within the City limits, or to and from the City from a place outside the City limits, from a permitted business location of a licensed entity to a permitted business location of another licensed entity subject to State laws and regulations and subject to the provisions of this Chapter and the City’s Municipal Code.

**“Legal parcel”** means a parcel of land for which one (1) legal title exists. Where contiguous legal parcels are under common ownership or control, such legal parcels may at the option of the property owner be counted as a single parcel for purposes of this Chapter.

**“Light Manufacturer”** means a person or entity that conducts the production, preparation, or compounding of cannabis or cannabis products either directly or indirectly not using any kind of extraction method whatsoever, but merely using chemical synthesis, such as baking or infusing at a fixed location that packages or repackages cannabis or cannabis products or labels or relabels its container.

**“Light Manufacturing Facility”** means a facility that conducts the production, preparation, or compounding of cannabis or cannabis products either directly or indirectly not using any kind of extraction method whatsoever, but merely using chemical synthesis, such as baking or infusing at a fixed location that packages or repackages cannabis or cannabis products or labels or relabels its container.

**“Off-site sales”** means the sale of marijuana for consumption off the premises.

**“On-site sales”** means the sale of marijuana for consumption on the premises.

**“Manufacturer”** means a person or entity that conducts the production, preparation, propagation, or compounding of cannabis or cannabis products either directly or indirectly or by extraction methods, or independently by means of chemical synthesis, or

by a combination of extraction and chemical synthesis at a fixed location that packages or repackages cannabis or cannabis products or labels or relabels its container.

**“Medicinal cannabis”** or **“medicinal cannabis product”** means cannabis or a cannabis product, respectively, intended to be sold for use pursuant to the Compassionate Use Act of 1996 (Proposition 215), found at Section 11362.5 of the Health and Safety Code, by a medicinal cannabis patient in California who possesses a physician’s recommendation.

**“Marijuana Cultivation Facility”** means a facility wherein marijuana is propagated, planted, grown, harvested, dried, cured, graded, labeled, tagged for tracking, or trimmed, or wherein all or any combination of those activities takes place.

**“Marijuana Distribution Facility”** means any facility or location, the primary function of which is the procurement, sale, and/or transport of marijuana and/or marijuana products between entities operating in strict accordance with State law, as may be amended from time to time, and subject to the provisions of this Chapter and the City’s Municipal Code.

**“Marijuana Entertainment Facility” means any facility or location, the primary function of which is a an entertainment use, and which must contain 1) an entertainment use (such as a movie, theater, bowling alley, concert venue), and at least one other of the following uses: a) Marijuana Store Front Retail Facility, as defined and/or, b) on-site marijuana consumption venue.**

**“Marijuana Facility”** means collectively any marijuana storefront retail facility, non-storefront retail facility, marijuana cultivation facility, marijuana distribution facility, marijuana testing facility or marijuana manufacturing facility, as those terms are defined in this Chapter.

**“Marijuana Manufacturing Facility”** means a facility where the production of marijuana concentrate, and/or the preparation, propagation, or compounding of manufactured marijuana, either directly or indirectly or by extraction methods or independently by means of chemical synthesis, or the packaging or repackaging of marijuana or marijuana products, or the labeling or relabeling of its containers, occurs, provided the facility holds a valid marijuana Manufacturing Facility license, a marijuana Regulatory Permit, and a Conditional Use Permit all issued in accordance with this Chapter and the City’s Municipal Code, and provided that the facility will qualify for a valid state when the State of California begins issuing state licenses to marijuana Manufacturers.

**“Marijuana Facility”** means collectively any marijuana storefront retail facility, non-storefront retail facility,—marijuana cultivation facility, marijuana distribution facility, marijuana testing facility or marijuana manufacturing facility, as those terms are defined in this Chapter.

**“Marijuana Manufacturing Facility”** means a facility where the production of marijuana concentrate, and/or the preparation, propagation, or compounding of manufactured marijuana, either directly or indirectly or by extraction methods or independently by means of chemical synthesis, or the packaging or repackaging of marijuana or marijuana products, or the labeling or relabeling of its containers, occurs, provided the facility holds a valid marijuana Manufacturing Facility license, a marijuana Regulatory Permit, and a Conditional Use Permit all issued in accordance with this Chapter and the City’s Municipal Code, and provided that the facility will

qualify for a valid state when the State of California begins issuing state licenses to marijuana Manufacturers.

**“Marijuana Testing Facility”** shall have the same definition as in the Business and Professions Code Section 26001, as may be amended, which currently means a laboratory, facility, or entity in the state that offers or performs tests of cannabis or cannabis products and that is both of the following: (1) Accredited by an accrediting body that is independent from all other persons involved in commercial cannabis activity in the state, (2) licensed by the Bureau of Cannabis Control, and regulated by Section 5700 et seq., as may be amended of Title 16 of the California Code of Regulations. Notwithstanding, a Marijuana Testing Facility shall also mean any of the following 1) a testing facility that is contracted with the State of California or any lawful department thereof, to provide testing or research and development on behalf of or to benefit the State, 2) a testing facility that is contracted with the United States of America, or any lawful department thereof to provide testing or research and development on behalf of or to benefit the United States.

**“Non-storefront Retail Facility”** shall have the same meaning as in Business and Professions Code Section 26070(a)(1), as may be amended, and further defined by Sections 5414 to 5427 et seq. in the California Code of Regulations, as may be amended. Currently, this a delivery only retail facility which sells marijuana to a customer solely and exclusively by delivery.

**“Off-site sales” means the sale of marijuana for consumption off the premises.**

**“On-site sales” means the sale of marijuana for consumption on the premises.**

**“Storefront Retail Facility”** shall have the same meaning as in Business and Professions Code Section 26070(a)(1), as may be amended, and further defined by Sections 5400 to 5413 et seq. in the California Code of Regulations, as may be amended. Currently, this a retail facility which sells and/or delivers marijuana or marijuana products to customers. A storefront retail facility shall have a licensed premises which is a physical location from which commercial cannabis activities are conducted.

**Section 3.                    ADDING SECTION 17.180.048 TO THE DESERT HOT SPRINGS MUNICIPAL CODE**

Sections 17.180.048 of Chapter 17.180 of the Desert Hot Springs Municipal Code shall be added to read as follows:

**17.180.048    Marijuana Entertainment Facilities**

- a        Permitted Locations. Marijuana Entertainment Facilities shall only be located in any Commercial District (except the Commercial Downtown District), Industrial District or Mixed-Use Corridor District in the City.**
- b.        Marijuana Entertainment Facilities primary function shall be an entertainment use and must contain:**

i) an entertainment use (such as a movie, theater, bowling alley, concert venue), and at least one other of the following uses:

1. Storefront Retail Facility, which facility complies with all terms and conditions in this Chapter, including all State and local laws. The Storefront Retail Facility shall enjoy all uses as provided in Section 17.180.045.

2. On-site marijuana consumption facility, which shall comply with all of the following:

a. On-site marijuana consumption facility shall not be attached to any Storefront Retail Facility and must be located on a separate premises, and otherwise comply with all State and local laws.

b. Marijuana Entertainment Facilities shall only sell marijuana products for on-site consumption only from within the facility.

c. Marijuana Entertainment Facilities shall not sell marijuana products for any Off-site sales from within the facility

c. Conditional Use Permit/Regulatory Permit Required. Entertainment Facilities shall obtain both a City-issued conditional use permit and regulatory permit. The number of Conditional Use Permits issued for Entertainment Facilities shall be above and beyond the limited number of conditional use permits allowed for Storefront Retail Facilities.

d. Marijuana Entertainment Facilities must comply with all local and State law as it pertains to any and all uses at all times.

e. If or when States laws and/or regulations allow for more uses for on-site marijuana consumption venues (such as allowance of infused products, or alcohol sales on the same premises as marijuana sales), such allowed uses may be allowed as follows:

1. Administrative Approval. A duly approved Marijuana Entertainment Facility, with a duly approved Conditional Use Permit and Regulatory Permit, and in good standing with the City, may request modification of the already approved Conditional Use Permit to operate their Marijuana Entertainment Facility pursuant to the new state law or regulations provided the Director of Community Development, or designee, finds all of the following:

1. There is a 10% or less than deviation to each of the following:

a. On-site circulation and parking, loading and landscaping;

- b. Placement and/or height of walls and fences;
  - c. Exterior architectural features, including colors, and/or modification of finished materials that do not alter or compromise the previously approved theme;
  - d. The density or intensity of a development project;
  - e. Paving; and
  - f. Hours of operation.
2. The Marijuana Entertainment Facility use is consistent with the goals, objectives, policies and programs of the general plan.
  3. The Marijuana Entertainment Facility use complies with all applicable zoning and other regulations.
  4. The Marijuana Entertainment Facility use will not be detrimental to the public health, safety or welfare or materially injurious to properties or improvements in the vicinity.
  5. The location, design and operation of the Marijuana Entertainment Facility use will be compatible with existing and planned land uses in the vicinity.
  6. Any project contemplating this Administrative Approval must comply with the California Environmental Quality Act (“CEQA”), and any and all applicable State and local laws and regulations. If CEQA is in fact implicated, as so determined by the Director of Community Development, CEQA must be adhered to, as so required by law.
- f. The Storefront Retail Facility and/or the on-site marijuana consumption facility, or any other marijuana component of the Entertainment Permit shall be subject to all applicable local taxes, including but not limited to those in Chapter 3.34.

**Section 4. AMENDING THE LAND USE TABLE OF THE DESERT HOT SPRINGS MUNICIPAL CODE**

The land use table shall reflect that Marijuana Entertainment Facilities are allowed with a conditional use permit in the Commercial District, except the Commercial Downtown District, Industrial District or Mixed-Use Corridor District.

**Section 5. SEVERABILITY**

That the City Council declares that, should any provision, section, paragraph, sentence or word of this ordinance be rendered or declared invalid by any final court action in a court of competent jurisdiction or by reason of any preemptive legislation, the remaining provisions, sections, paragraphs, sentences or words of this ordinance as hereby adopted shall remain in full force and effect.

**Section 6. AMENDING OF BAIL SCHEDULE**

That the City Attorney's Office is hereby directed to determine whether this ordinance necessitates amendment of the City's Bail Schedule and to cause such necessary amendments to be made and filed with the local branches of the Superior Court of the County of Riverside.

**Section 7.**                    **EXECUTION AND CERTIFICATION**

That the City Clerk is directed to do all things necessary to cause the execution of this ordinance immediately upon its adoption and shall thereafter certify to the passage of this ordinance and cause the same to be published according to law.

**Section 8.**                    **EFFECTIVE DATE**

That this ordinance shall take effect thirty (30) days after its second reading by the City Council.

DRAFT

That the foregoing Ordinance was approved and adopted at a meeting of the City Council held on \_\_\_\_\_, 2020, by the following vote:

- AYES:**
- NOES:**
- ABSENT:**
- ABSTAIN:**
- ATTEST:**

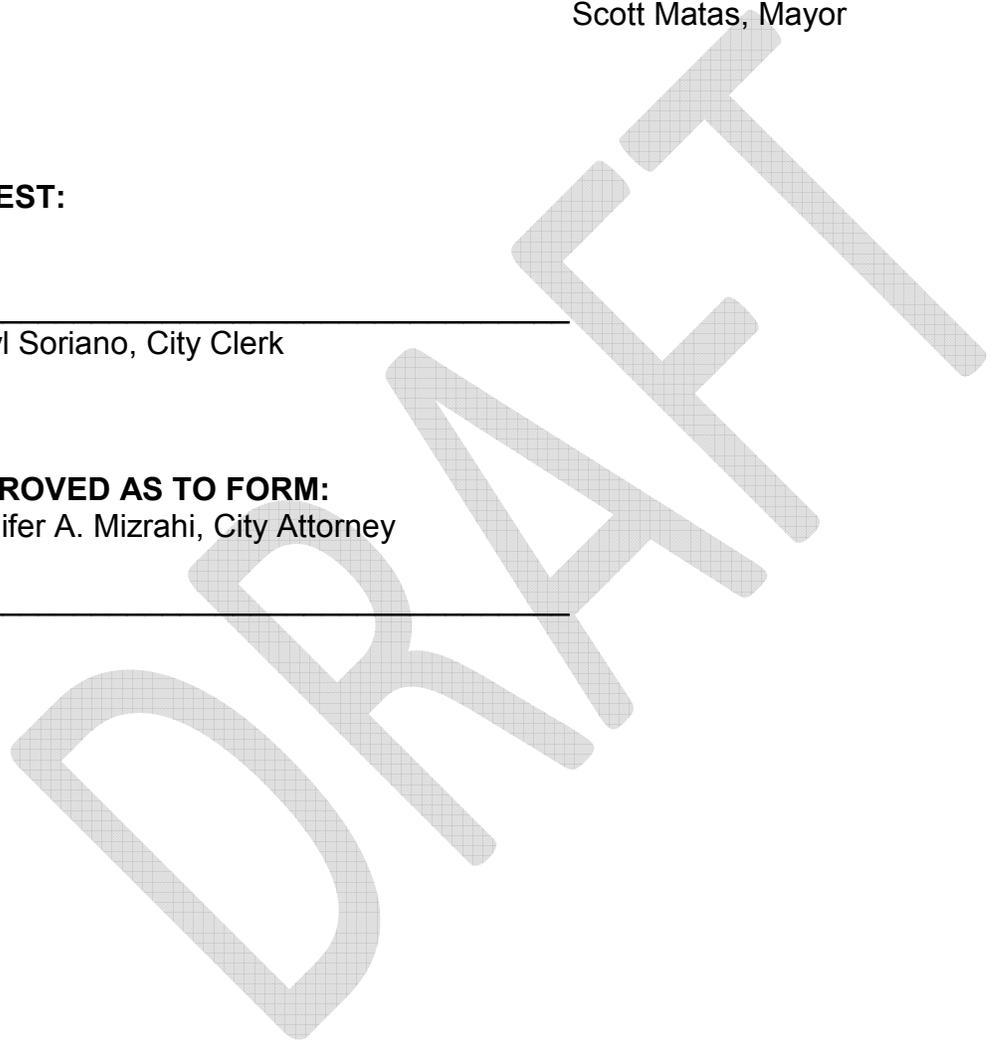
\_\_\_\_\_  
Scott Matas, Mayor

**ATTEST:**

\_\_\_\_\_  
Jerryl Soriano, City Clerk

**APPROVED AS TO FORM:**  
Jennifer A. Mizrahi, City Attorney

**By:** \_\_\_\_\_





**REPORT TO THE CITY COUNCIL**



**DATE: June 30, 2020**

**TITLE: Assessment of Current Cannabis Taxation**

**Prepared by: Doria Wilms, Assistant City Manager**

**RECOMMENDATION**

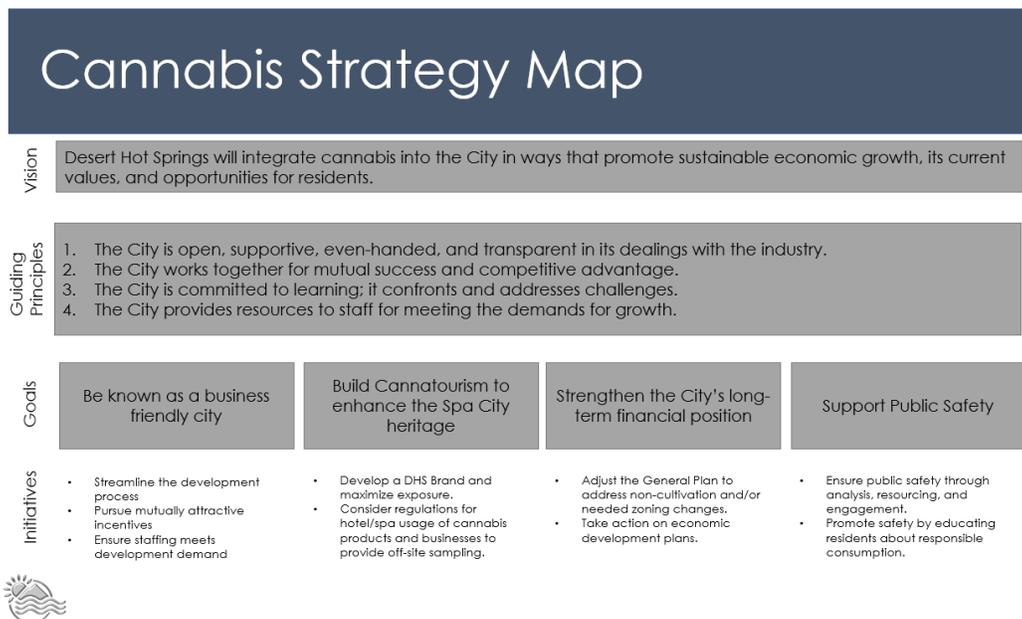
**Receive and File**

**DISCUSSION**

During the June 5, 2018 City Council Study Session on Cannabis, Staff was directed to work with a moderator to facilitate the development of a unified City Council vision regarding cannabis. As part of the data gathering process, Staff was also directed to form a Cannabis Task Force comprised of cannabis industry experts to create proposals for City Council consideration. The proposals were reviewed, along with City Council’s ideas, during a Cannabis Strategic Planning Session held on October 24, 2018. The Cannabis Strategic Planning Session resulted in action items that formulate proposed initiatives for strategies to support the City Council’s intended vision.

During the March 19, 2019 City Council Study Session on the Cannabis Strategic Plan, City Council unanimously agreed to approve the Cannabis Strategic Plan with the understanding that certain items would return in the future requiring City Council approval.

The Cannabis Strategic Plan produced a Strategy Map outlining the City’s Vision, Guiding Principles, Goals and Initiatives for growing and developing the Cannabis Industry in the City of Desert Hot Springs.



One of the Goals of the City Council’s Cannabis Strategic Plan is to “Be Known as a Business-Friendly City”, with an underlining initiative to “Ensure competitive tax rates.” In an effort to ensure alignment with the City Council’s Cannabis Strategic Plan, the City retained Urban Futures, Inc. (UFI) to conduct an assessment of the fiscal health and stability of the City of

Desert Hot Springs' cannabis cultivation tax structure, and to provide recommendations for actions to address known and anticipated fiscal impacts from the tax structure changes and economic development opportunities. UFI's Report on Cannabis Cultivation is attached (Exhibit 1).

**FISCAL IMPACT**

Unknown at this time.

**EXHIBIT(S)**

1. Urban Futures Report on Cannabis Cultivation
2. Cannabis Strategic Plan Strategy Map



URBAN FUTURES, INC.  
Public Management Group  
Public Finance Group

*Southern California Office  
17821 E 17th St, Suite 245  
Tustin, CA 92780*

*Northern California Office  
1470 Maria Lane, Suite 315  
Walnut Creek, CA 94596*

*Phone: (714) 283-9334  
Fax: (714) 283-5465  
www.urbanfuturesinc.com*

# City of Desert Hot Springs

## REPORT ON CANNABIS CULTIVATION



Urban Futures, Inc.  
17821 E 17th St, Suite 245  
Tustin, CA 92780

## Contents

- I. INTRODUCTION ..... 2**
  
- II. SUMMARY OF CANNABIS TAX STRUCTURE..... 3**
  - A. Review of State, Local and Regional Taxes..... 3
  - B. Key Assumptions in Cannabis Tax Survey..... 4
  - C. Cannabis Tax Survey - Regional and Local Agencies..... 6
  
- III. SUMMARY OF FINDINGS..... 8**
  - A. Policy Considerations for Fiscal and Cannabis Industry Success ... **Error! Bookmark not defined.**
  - B. Understanding Saturation Indicators ..... **Error! Bookmark not defined.**
  - C. Creating a Cultivation Inventory Index ..... **Error! Bookmark not defined.**
  - D. Understanding Cannabis Beyond the Regulatory Environment ..... 9
  
- V. CONCLUSION .....12**

**I. INTRODUCTION**

At the November 4, 2014 special election, the voters of the City of Desert Hot Springs passed and adopted two (2) taxes in connection with the City's Medical Marijuana Program. The two taxes are summarized in Table 1 below.

Table 1

<b>Measure</b>	<b>Cultivation Tax (Measure HH)</b>	<b>Sales Tax – Dispensary (Measure II)</b>
Tax Structure	A biannual tax of twenty-five dollars and fifty cents (\$25.50) per square foot for the first 3,000 square feet of cultivation, and ten dollars and twenty cents (\$10.20) per square foot for the remaining space utilized in connection with the cultivation of cannabis.	A monthly 10% tax on proceeds from the sale/provision of cannabis.

Shortly thereafter, City Council adopted ordinances which permit the establishment and operation of medical marijuana facilities in the City, subject to obtaining a conditional use permit and a regulatory permit.

With voter approval, the adoption of ordinance, and a regulatory permit process in place, the City was one of the first in California to establish a cannabis program. Over the years, many municipalities have tried to mirror the structure and success of the City's program. In fact, many local agencies have adopted very similar cultivation and dispensary fees. The City is, however, one of the few in the State that does not charge for cannabis related manufacturing.

Annual cultivation revenues now exceed \$2.7 million from ten (10) operational facilities with an average taxable square footage of 24,647. Cannabis revenues have become the City's second largest revenue source and possibly its most resilient revenue source during economic downturns. By aggressively implementing a cannabis approval process and regulatory structure, the City was able to secure a substantial investment in the community from the operators of cannabis facilities. These investments have created employment opportunities and a vital and much needed revenue stream to fund essential services within the City. While the City has had success in anchoring the cannabis industry in Desert Hot Springs, additional opportunities to grow and diversify this economic sector will require the City to make well informed financial and policy decisions. Taking advantage of these opportunities will require patience for the industry to mature as supply chains are created and adjusting to industry growth, creative entrepreneurial City-inspired programs as outlined below, and the discipline to stay the course.

Urban Futures, Inc. (UFI) was engaged by the City to provide a high-level assessment of the fiscal health and stability of the City's cannabis cultivation tax structure, and to provide recommendations for actions to address known and anticipated fiscal impacts from the tax structure changes and economic development opportunities. To prepare this report and analysis, UFI worked with City staff from the following departments Finance, Community Development, Administration and City Attorney and relied on the City's historical data, published financial documents, cannabis cultivation reports and projections, cannabis tax surveys, Conditional Use Permit (CUP) applications and current economic development opportunities.

The analysis, findings and policy considerations are presented in this report for use by City staff and elected officials. The report provides findings regarding the City cannabis taxes (based on surveyed agencies) and policy considerations on tax and operational changes that may improve the stability and sustainability of cannabis revenues and the industry operating within the City. The analysis also suggests the City's investment in the cannabis industry locally would likely lead to significant long-term benefits when compared to modest tax structure adjustments. It is our belief tax structure adjustments would not guarantee additional stable growth within the industry or significant job growth. Furthermore, an adjustment of the tax structure down, as a public policy decision, should identify the public benefit prior to a change in tax structure and an immediate reduction in revenue to the City.

## **II. SUMMARY CANNABIS TAX STRUCTURE**

### **A. Review of State, Local and Regional Taxes**

We began our engagement by building a high-level cannabis tax survey. The survey is a sample limited to local and regional agencies for this report and the analysis was not intended to provide a state-wide view of all municipalities with cannabis taxes. Additionally, because the survey is limited we did not compare land values, utility costs/availability or other municipal taxes impacting cultivation businesses state wide. Instead, the survey developed for this report is intended to serve as an initial assessment tool of the City's cannabis tax structure and to provide a basis for identifying policy considerations which the City Council can consider actions to address constraints and opportunities.

The cannabis tax survey is designed to be a politically neutral, fiscal assessment that establishes an agreed-upon common understanding of the status quo: if the City makes no changes to its regulatory practices and there are no significant external regulatory impacts to cannabis cultivators and dispensaries, what is the assumed direction of the cannabis industry in Desert Hot Springs? Working with staff, we collected the necessary data required to understand, aggregate, and perform a brief analysis of the City's cannabis program and its impact of current and future cannabis-related businesses. We worked to ensure a general level of reconciliation between the financial data reported by staff and the survey data used for this report. We also looked to isolate tax variances that can distort an accurate picture of the surveyed cities,

namely those that include a tax on manufacturing, and to disaggregate several approved cultivation businesses that are not yet operational.

We are aware of the annual adjustments to cultivation tax rates as required by the Cannabis Tax Law. Effective January 1, 2020, all local cultivation tax rates reflect an adjustment for inflation. The adjusted rate for each category (shown below) represents a roughly 4% increase in monthly and quarterly cannabis tax returns to the State beginning January 1, 2020. For the purposes of this report, we assume this is the only annual adjustment for cultivators within the surveyed agencies.

CANNABIS CATEGORY	2019 RATES	RATES EFFECTIVE 1/1/2020
Flower per dry-weight ounce	\$9.25	\$9.65
Leaves per dry-weight ounce	\$2.75	\$2.87
Fresh cannabis plant per ounce	\$1.29	\$1.35

**B. Key Assumptions in Cannabis Tax Survey**

The following are key assumptions for purposes of understanding our cannabis tax survey and analysis. The findings in this report reflect cannabis taxes currently in place for the surveyed agencies and only address possible policy considerations for Desert Hot Springs, and otherwise assume a status quo condition that may be untenable as a result of the COVID-19 pandemic.

**Cannabis taxes in the survey include taxes assessed by square footage and by percentage of total sales.** The indices and variables used by each agency to adjust the tax rate appear to be primarily derived from local and regional policy preferences appropriate for the surveyed agency’s own revenue, level of service costs, and other local considerations. Except for the State of California, under or over performance of the cannabis economy has yet to lead to broad changes in cannabis taxes structures. This is due to many factors including the growing maturity of supply chains for cultivators as the legal cannabis industry is still in its infant stages, availability of necessary utility infrastructure and real property zoned for cannabis businesses.

**The cannabis tax analysis does not address possible impacts from a recession.** There is no reliable method to accurately predict the timing, magnitude, duration and consequence of the next economic contraction or recession, and the impact to the cannabis industry and its various local revenue streams. This is evident during the current COVID-19 pandemic, which is occurring during the drafting of this report, resulting in roughly \$500,000 to \$600,000 in budget reductions for FY 2020-2021 in the City. Recessions occurring after 1945 have peak-to-trough declines in the Gross Domestic Product (GDP) ranging from a low of 0.3% to the Great Recession’s 4.3% decline from 2008 through 2012, with an average of 2.21%. These declines have had varying impacts on local government revenues. Some revenues like the sales tax

(monthly revenues, trued-up quarterly) reflect an immediate impact, while others like the property tax (with an annual lien date) have an effective one-year lag in recognizing economic impacts. In Desert Hot Springs, the City lost over \$9 million in property tax revenues during the Great Recession. For long-term liabilities like pensions or adjustable debt, the full impact can take even longer to appear because of amortization or “ramping” provisions.

The City’s FY 20-21 Budget assumes no growth in cultivation revenues from the prior year. However, it is prudent to pay attention to cannabis revenues during this period as this will be the first significant economic contraction since the passage of the taxes and implementation of the City’s regulatory program. Depending upon the duration of the pandemic and its impact on the local economy, a significant impact may be avoidable to cannabis businesses based on their “essential” status and remain open and operational during the pandemic. As such, and given the importance of annual tax revenues, we believe the City should closely monitor cultivation performance during this pandemic period as a form of “stress-testing” cannabis revenues to measure resiliency and stability as a source of General Fund revenue. A modification of tax rates up or down now would significantly impair the City’s ability to understand and predict the impact of future recessions on the cannabis industry.

**Taxes from the survey tell only part of the story.** As cited above, cannabis revenues and industry performance have yet to be stress-tested through an economic downturn. Despite the limited history of tax collection and long-term trend analysis, it is imperative for the City to monitor cannabis tax revenues closely and maintain a positive relationship with local businesses by keeping lines of communication open and offering to meet with local industry leaders on a regular basis. Industry changes, either through revenue augmentation or new business practices, often takes years to accomplish and see financial results. Thus, it is important for the City to maintain a long-term financial and public benefit perspective when making strategic decisions regarding cannabis business regulations and taxes. It is highly probable given the number of CUP amendments to convert cultivation square footage into distribution square footage supply chains are still developing and must be given time for full implementation before regulatory adjustments impacting City revenues and services are considered. This is one of the advantages the City has with its established program versus others just starting.

It’s possible municipalities within the survey will amend fees and taxes for cannabis businesses in the future for three reasons: 1) newly established cannabis programs in cities like Lake Elsinore and San Bernardino now include incentives for cultivators to open businesses in those cities; 2) annual inflationary adjustments by the State could impact future tax schedules; and 3) the impacts of COVID-19 may lead to significant closure of businesses operating within cannabis cultivation zones leaving a surplus of vacant facilities. Because cannabis cultivation facilities are high revenue generators requiring a very low level of services, surplus facilities may become an economic

development target for municipalities seeking to restore reduced services through new cultivation tax revenues.

**Cannabis tax revenues may adjust for the growing cost of City services.** Most City established fees and taxes are derived from state, county and local voter approved measures. The taxes established for cannabis were voter approved and implemented by ordinance and may adjust by an annual consumer price index (CPI). The City has adjusted cannabis taxes by CPI once since inception, and according to staff, does not plan an adjustment for FY 20-21.

Because the City must compete state wide for cannabis cultivation businesses, economic development programs focused on building local supply chains can become a pillar of the City’s economic development program to support, grow and sustain a healthy cannabis industry within the City limits. City staff, as well as consultants, continue to allocate significant amounts of time and resources to the cannabis industry. In fact, the City has hired an economic development manager to focus on development opportunities city-wide while staff within the City Manager’s Office continues to focus on cannabis opportunities. For example, City staff has attended the International Council of Shopping Centers (ICSC) conference in Las Vegas, hosted numerous developer meetings with cannabis prospects, and is pursuing opportunities to expand business opportunities for existing cultivators and dispensaries. The City is allocating well over \$100,000 annually from the General Fund to enhance and sustain community services targeted at growing the cannabis industry. A continued, and focused, reinvestment back into cannabis will drive new opportunities in the future. As supply chains expand and mature, existing businesses can grow and new cultivation business will open. Based on trend analysis provided in the report, the growth opportunity for the City is likely to be led by manufacturing opportunities as cultivators find buyers facilitating expansion.

**C. Cannabis Tax Survey – Regional and Local Agencies**

The table below contains the cities used for the tax survey. As noted in Section II above, the surveyed cities have a variety of tax structures. For example, the surveyed cities in Riverside County tax retail as a percentage of revenues and cultivation by square footage. Based on the survey, Desert Hot Springs is within the average and competitive for retail sales when compared to other Riverside and Coachella Valley cities. The City, however, has a unique tax structure for cultivation of twenty-five dollars and fifty cents (\$25.50) per square foot for the first 3,000 square feet of cultivation, and ten dollars and twenty cents (\$10.20) per square foot for the remaining space utilized in connection with the cultivation of cannabis. Based on the average square footage cost of \$12.27 the City is competitive, but the \$25.50 for the first 3,000 square footage may be viewed as an outlier and discourage new investment. When combined with a zero tax for manufacturing, labs and distribution, this is important when considering the following:

- The average square footage of an operational cultivation facility is 24,674 square feet reflecting a reduction in cultivation square footage and increased manufacturing;
- The average square footage may increase as new cultivators with approved CUPs are online, but remains unknown; and
- The average square footage cost is below the \$13.25 average within the Coachella Valley, driven primarily by several larger cultivation facilities (i.e., those over 30,000 square feet).

City	Retail		Cultivation		Manufacturing		Distribution		Lab Testing		County/Region
	M	C	M	C	M	C	M	C	M	C	
Cathedral City	10%		\$15/sq. ft		10%		10%		10%		Riverside
Coachella	6%		\$15/sq. ft		\$15/sq. ft		6%				Riverside
Desert Hot Springs	10%		\$25/sq.; \$10/sq. ft		0%		0%		0%		Riverside
Palm Desert	15%		\$13/sq. ft		2%		15%		0%		Riverside
Palm Springs	10-15%		\$10/sq. ft		2%		0%		0%		Riverside
Blythe	2%		\$6/sq. ft		2%		2%		2%		Riverside
Lake Elsinore	Developer Agreements										Riverside
Moreno Valley	8%		\$15/sq. ft		8%		8%		UN		San Bernardino
Adelanto	3%		\$0.415/sq. ft		1%		1%		1%		San Bernardino
Needles	10%		10%		10%		10%		10%		San Bernardino
Santa Ana	6%	8%	6%		6%		6%		5%		Orange
Costa Mesa	N/A		N/A		1%		1%		N/A		Orange
Los Angeles	5%	10%	2%		2%		1%				Los Angeles
West Hollywood	0%	7.50%	0%	7.50%	0%	7.50%	0%	7.50%	0%	7.50%	Los Angeles
Maywood	up to 10%		up to 10%		up to 10%		up to 10%		up to 10%		Los Angeles
Malibu	0%	2.50%	0%	2.50%	0%	2.50%	0%	2.50%	0%	2.50%	Los Angeles
Long Beach	6%	8%	\$12/sq. ft		1%		1%		1%		Los Angeles
San Bernardino	6%		\$10/sq. ft		4%		3%		3%		Los Angeles
Pomona	up to 6%		up to \$10/sq. ft		up to 6%		up to 6%		up to 6%		Los Angeles
Pasadena	4%		\$7/sq. ft		2.50%		2%		1%		Los Angeles
Bellflower	5%		\$15/sq. ft		5%		5%		5%		Los Angeles

La Puente	10%		10%		10%		10%		10%		Los Angeles
Culver City	5%	6%	\$12/sq. ft		4%		2%		1%		Los Angeles
Lynwood	2-2.5%		\$10-12.50		2-2.5%		2-2.5%		2-2.5%		Los Angeles
Carson	N/A		\$25/sq. ft		18%		18%		18%		Los Angeles
Pomona	6%		\$2-10/sq. ft		4%		3%		3%		Los Angeles
San Diego	0%	5%	0%	5%	0%	5%	0%	5%	0%	5%	San Diego

M= Medical; C= Commercial

The above survey does have its limitations. For example, the survey does not take into consideration several other factors necessary to fully evaluate the City’s competitiveness including:

- Square footage used for non-taxed services;
- Application and regulatory fees;
- Annual State inflationary adjustments;
- Cost of real property;
- Local tax structure;
- Available utilities; and
- Zoning area and available buildings to reuse as cultivation facilities (i.e., supply and demand)

Despite the survey limitations, we believe staff’s regulatory experience and ability to focus on cannabis opportunities has kept the City competitive when considering all the factors above. As cultivation and manufacturing grows state wide, the City will need to review its structure to remain competitive while meeting funding needs for current and desired city services.

**SUMMARY OF FINDINGS**

**III. POLICY CONSIDERATIONS FOR FISCAL AND CANNABIS INDUSTRY SUCCESS**

As stated in the introduction, annual cultivation revenues in the City exceed \$2.7 million. Total revenue, however, is only one measure of success. The important drivers beneath the annual revenue figures are leading indicators of operational and fiscal health of the City’s cannabis cultivation industry and tax base. Those drivers include the following:

1. number of operational facilities;
2. average annual taxable cultivation square footage;
3. quantity of flowers grown per square foot; and
4. average price of flowers.

### **A. Understanding Saturation Indicators**

The legal marijuana industry in California and the United States has come an exceptionally long way in just a few years. Initially, only a handful of states allowed medical marijuana when prescribed by a physician, and a Gallup survey found that just one out of three Americans supported legalizing marijuana at the national level. Today, two out of three Americans surveyed by Gallup favor legalizing marijuana nationally, 33 U.S. States have given the green light to medical marijuana (including ten (10) that also allow recreational cannabis), and Canada has become the first industrialized country worldwide to legalize adult-use cannabis.

Everything would seem to align with significant growth for the cannabis industry in the City, but the supply chain for cultivators must avoid a looming reality. Growers are still in the process of building out their capacity. With 46 pending cultivators with CUP approval in Desert Hot Springs, cannabis growers are still in capacity expansion mode for the recreational market. Without the identification and implementation of performance measures, policy decisions aimed at increasing cannabis opportunities go unmeasured and could negatively impact supply chains supporting current demand. Left unchecked a state wide push for more cultivation will lead to oversupply, a steep decline in cultivation revenues, and ultimately a failing cultivation business.

With ten (10) operational cultivation facilities, the local cultivation market would appear to reflect no appearance of saturation or risk of oversupply. However, recent CUP amendments raise question as to why cultivation square footage is being converted to manufacturing, which is not taxed under the City's tax structure. Anecdotal evidence suggests the City's tax structure is the leading basis for the CUP amendments and slower pace of new cultivation businesses. However, there is sufficient evidence to suggest as more cultivation facilities go live state wide, and supply chains grow, manufacturing is or will soon be a growing opportunity locally which could lead to a declining square footage for cultivation. While this is not an eminent threat, a trend is beginning to emerge, and the City should begin working with cultivators now to develop a growth plan beneficial to both parties.

### **B. Creating a Cultivation Inventory Index**

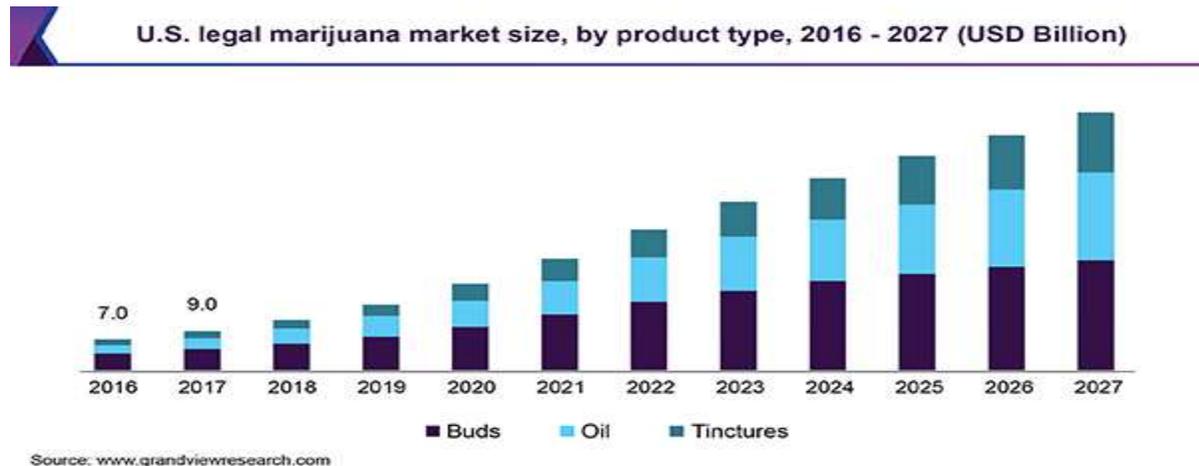
We believe the City can expand existing cultivation, manufacturing, distribution and lab businesses in the City by working with cultivators to develop a cultivation inventory index that accounts for and measures the quantity, price and the end use (buds, oils and/or tinctures). Taking this a step further, the inventory index could ensure local cultivators have a diversity of product available for distribution/manufacturing/labs while pursuing the highest quality of products and those in greatest demand. Additionally, the index could be used for the City for economic development purposes with the goal of expanding supply chains and product innovation for local cultivators. By measuring and expanding demand for various products, cultivators will have sustained pricing which is key to future business growth and for the City to have revenue resiliency. Additionally, the cannabis inventory index could lead to economic

gains through a branding of “Grown in Desert Hot Springs” cannabis and new demand through a City wellness program linked to local spas. A win-win for the City and its local businesses.

**C. Understanding Cannabis Beyond the Regulatory Environment**

The United States legal marijuana market has an estimated value of \$15.6 billion and is expected to expand at a significant compound annual growth rate (CAGR) over the next ten (10) years.<sup>1</sup> Not surprisingly, the use of cannabis for medical purposes is the leading demand, equal to 71% of all revenue in 2019. However, demand for recreational use is growing. In fact, according to a recent Grant View Research report studying legalized cannabis, by 2027 adult-use is expected to emerge as the fastest-growing segment. Adult-use or recreational cannabis is defined as any use of cannabis apart from medical purposes. Such growth presents an opportunity and challenge for the City. With 46 CUP-approved cultivation facilities in the waiting, the City is ready for the next wave of growth. However, because cannabis cultivation businesses are allowed throughout California, competition among cultivators is not limited to local or regional markets for new customers and the City’s cannabis tax structure and revenue objectives should be reviewed on regular basis.

Based on product type, the legal marijuana market is segmented into three (3) categories: buds, oils, and tinctures. As depicted in the chart below, buds segment dominates the market in demand and annual revenue, while the oil segment is likely to outpace the growth of buds over the next ten (10) years.



<sup>1</sup> Grant View Research: Legal Marijuana Market Size, Growth, Industry Report 2027

According to the Cannabis Business Times, economies of scale will be more important than ever in 2020 and beyond. As more sophisticated growers enter the market, larger facilities will be the new normal. We see this trending based on the City’s cultivators with approved CUPs but are not yet operational, as many include significant cultivation square footage. As larger facilities come online, successful small cultivators will find ways to differentiate their brand to retain premium prices. Cultivators will seek out sustainable products such as “cause brands” with a social purpose to draw in savvy customers, develop brand followings, and demand green and ethical products. For the small cultivators, cannabis tourism would help build the brand and expand visibility.

As cultivators continue to modify business plans seeking to create profit stability, anticipated growth in the oils and tinctures market will result in a shift from taxable cultivation square footage to non-taxed manufacturing uses. We believe we are starting to see this in Desert Hot Springs. While the high demand of buds will remain strong as smoking is more economical and in greater demand than oral products or tinctures, to balance out business risk cultivators may seek advantages to keep profits high and reach new customers. We do not think this is an immediate threat, and could be viewed as an opportunity, as competition among the existing cultivators is high and few have the resources to venture into large-scale manufacturing of medicinal cannabis. This current situation creates three (3) favorable opportunities for the City: 1) The City could play a key role in linking local cultivators with research funding for the industry which plays a vital role in encouraging to launch innovative products; 2) A growing manufacturing segment would create new cannabis economy and job growth opportunities in the City without the risk of relying on bud cultivation and risk of saturation; and 3) The City is well positioned to create a cannabis tourism market by partnering with the spas and local cultivators.

**IV. CONCLUSION**

In order to maintain fiscal stability and cannabis revenue sustainability for the General Fund, the City will need to look beyond a regulatory stance to cannabis cultivation and seek to create an entrepreneurial approach to cannabis industry development. Understanding the industry better is key to avoiding pitfalls such as oversaturation which occurred in Oregon and Colorado as they raced to open cultivation facilities. Because the State of California is not measuring oversaturation or cultivator risk, the City must play a role in developing supply chains and product demand from local cultivators which will require time and additional business development to occur locally, state wide, and nationally.

We understand policy makers will be asked to implement regulatory changes to help local industry growth. However, because the industry is in its infant stages policy considerations must be measured and have a public benefit in mind. In some cases, the risk of an unmeasured approach can be summarized by certainties against unknowns. For example, if the City

amended the cultivation tax from \$25.50 for the first 3,000 square feet to \$15.00 (the same as Coachella and Cathedral City) or to \$10.20 (i.e., the current cultivation tax facilities in excess of 3,000 square feet), the City's annual cultivation revenue would decline by \$315,000 or \$459,000 respectively. The loss of revenue from operational cultivators will have one or more of the following impacts:

- Reduce reserves in a time when reserves are already being allocated to address pandemic impacts;
- Reduce City services previously funded by cannabis revenues;
- Alter the City's investment strategy for reserves as determined with the City Hall financing; and/or
- With a further decline in the City's reserves from COVID-19 and possibly impair the City's A+ credit rating increasing the cost of obtaining capital.

One or more of the above impacts are certainties. What is unknown, and cannot be substantiated at this time, is if a cultivation tax reduction would lead to additional cultivation businesses and stable City revenues. Because public services may be negatively impacted, and a such a reduction would not require a public vote (i.e., the City has administrative authority), it is imperative a public benefit be identified prior to such a policy change.

An alternative to reducing the current tax structure under the City's administrative authority, is to further study the City's cannabis tax structure with a long-term view and to establish fees and taxes which promote the addition of cultivation facilities while also taking into account anticipated trends in the cannabis industry. Specifically, a cannabis program with the objective to offer opportunities to small and large cultivators while also seeking a tax and fee program which does not impair the City's ability to provide much needed services to residents, businesses and visitors. It's possible, from time to time, taking a long-term view of the City's cannabis tax and fee program will require voter approval for amendments.

For these reasons, and the policy considerations cited above, we believe a long-term program view and continued investment in the local cannabis industry would produce measurable results, create steady job growth, and facilitate local industry and fiscal stability. This conclusion is reached for several reasons:

1. Local cultivators have implemented a variety of pricing strategies to determine margins and profitability, which gives them an edge over cultivation facilities yet to open. Cultivators implement pricing strategy with a pricing model. The model essentially provides instructions or rules for setting prices and creating margins based on existing supply chains and successful business development

- opportunities which facilitate growth. This is important to the success of each cultivator in a growing competitive market and one the City can play a key role in;
2. The City has a role to play in building a supply chain and local demand through local businesses, economic development programs, and a cultivation index protecting local cultivators from oversaturation via state wide competition. The City has the tools and expertise to engage new businesses that expand the cultivation and distribution network for local cultivators including local spas, future manufacturing, distribution and lab testing opportunities; and
  3. The City has an expansive area available for cultivation and other cannabis industry businesses with some of the lowest real property costs in Southern California. Additionally, the City has roughly 46 approved cannabis cultivation businesses with regulatory approvals yet to be open. As the City builds its cannabis brand, new cultivators will have the benefit of a City program engineered to grow and sustain cannabis businesses in the City.

The policy considerations in this report will assist the City in taking the next step to move beyond the standard regulatory stance taken by local governments collecting cannabis tax revenues. A key is to collaborate with local cannabis businesses and to develop systems and programs that facilitate sustained growth and opportunity. Today, the concepts in this report may seem unjustified or challenging, yet we all accept the notion that preparation leads to opportunity. This same concept created the City's proposed tax structure in 2014 which is now the standard in Coachella Valley. The City can continue to lead through the creation of ideas, industry knowledge (i.e., preparation) and a commitment to try new and innovative concepts (i.e., opportunity) while accepting the industry is still in its infant stages and there is no history to guide us forward. Simply modifying the tax base, or approving more facilities, without a plan of engagement, an identified public benefit and solid industry knowledge could lead to unintended consequences and the loss of an opportunity to partner through a commitment of engagement, transparency and entrepreneurial spirit with the cannabis industry. Creating a Desert Hot Springs cannabis brand is an innovative idea, but one we think the City can achieve and remain an industry leader in this space.

# Cannabis Strategy Map

Desert Hot Springs will integrate cannabis into the City in ways that promote sustainable economic growth, its current values, and opportunities for residents.

Vision

1. The City is open, supportive, even-handed, and transparent in its dealings with the industry.
2. The City works together for mutual success and competitive advantage.
3. The City is committed to learning; it confronts and addresses challenges.
4. The City provides resources to staff for meeting the demands for growth.

Guiding Principles

Support Public Safety

Strengthen the City's long-term financial position

Build Cannatourism to enhance the Spa City heritage

Be known as a business friendly city

- Initiatives
- Streamline the development process
  - Pursue mutually attractive incentives
  - Ensure staffing meets development demand
  - Develop a DHS Brand and maximize exposure.
  - Consider regulations for hotel/spa usage of cannabis products and businesses to provide off-site sampling.
  - Adjust the General Plan to address non-cultivation and/or needed zoning changes.
  - Take action on economic development plans.
  - Ensure public safety through analysis, resourcing, and engagement.
  - Promote safety by educating residents about responsible consumption.



