



Date: June 8, 2017

To: Mayor and Members of the City Council

From: Patrick H. West, City Manager *T.H.W.*

Subject: **Medical Marijuana Business License Program Update**

This memorandum provides an update on the medical marijuana program in Long Beach, including the current status of business license applications for Dispensaries, Cultivators, Testing Laboratories, and other business types, and an update on FY 17 start-up costs for implementation. City staff will continue to provide regular updates to the Mayor and City Council as additional information becomes available.

Dispensary Applications

Priority status is granted to former Long Beach medical marijuana business lottery winners from September 2010 who were permitted by the City Council to continue operating after February 14, 2012. All other applicants are assigned a Non-Priority status.

Once their applications are deemed "complete," Priority applicants can proceed immediately to the Department Review phase (i.e., background check, plan check and inspections). Department review includes the Police, Fire, Health and Development Services Departments.

To date, a total of 16 Priority applications have been submitted. Of those 16 Priority submittals, 14 applications have been deemed "complete" and moved on to the Department Review phase. Two Priority applications remain "incomplete," pending corrections. While most of the Priority applications are in the early stages of plan review, a limited number are nearing plan approval, and may begin construction soon. Depending on construction timelines, it is possible that dispensaries could begin opening within the next 30 to 60 days, at the earliest. The majority of Priority dispensaries are not expected to open until the fourth quarter of 2017.

Priority Applicants	
Priority Dispensary Application Deadline	July 24, 2017
Priority Dispensary Applications Submitted	16
Priority Dispensary Applications Deemed "Complete"	14
Priority Dispensary Applications in Building Plan Review	14
Estimated Earliest Priority Dispensary Opening	July 2017

The application period for Non-Priority medical marijuana dispensary licenses closed on February 23, 2017. Approximately 180 Non-Priority applications were submitted, 149 of which were deemed "complete" and able to move on in the application process. The City has begun scoring applications to determine which of the Non-Priority applicants may receive the remaining licenses after Priority licenses are awarded, for a total of 32 licenses

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citywide. Staff anticipates completing the scoring process by August 2017. Should there be a tie in points awarded, a public lottery will be held to determine which applicants will be awarded a license. The public lottery is tentatively scheduled to be held in September 2017. Based on this timeline, staff does not anticipate Non-Priority dispensaries being in operation before November 2017.

Non-Priority Applicants	
Non-Priority Dispensary Application Deadline	February 23, 2017 (CLOSED)
Non-Priority Dispensary Applications Submitted	180
Non-Priority Dispensary Applications Deemed "Complete"	149
Non-Priority Dispensary Applications in Building Plan Review	0
Estimated Earliest Priority Dispensary Opening	November 2017

Cultivation and Testing Laboratory Applications

The City began accepting medical marijuana Cultivation and Testing Laboratory applications on May 1, 2017. There is no deadline to apply for these business types because there is no cap on the number of licenses that can be issued, per the voter initiative. To date, only one application has been submitted for medical marijuana cultivation. However, based on the number of calls received by the Medical Marijuana Hotline from potential Cultivation applicants, staff expects to begin receiving more Cultivation applications later this summer.

Cultivation Applicants	
Cultivation Application Deadline	<i>None</i>
Cultivation Applications Submitted	1
Cultivation Applications in Building Plan Review	0
Estimated Earliest Cultivation Start Date	October 2017

At this time, it is unclear when the first Testing Laboratory applications will be submitted. As more applications are received, staff will begin posting a list of proposed Cultivation and Testing Laboratory locations on the Long Beach medical marijuana website (www.longbeach.gov/marijuana). The list of applications will be updated on a regular basis.

Testing Laboratory Applicants	
Testing Laboratory Application Deadline	<i>None</i>
Testing Laboratory Applications Submitted	0
Testing Laboratory Applications in Building Plan Review	0
Estimated Earliest Testing Laboratory Start Date	January 2018

Other Application Types

The City will begin accepting medical marijuana Manufacturing applications on August 1, 2017. Manufacturing application materials will be made available on July 15, 2017. A timeline has not yet been set for when the City will begin accepting medical marijuana Distribution and Transportation applications.

Medical Marijuana Implementation and Start-Up Costs

On February 14, 2017, the City Council approved setting aside \$1.4 million of FY 16 year-end General Fund surplus to help fund start-up medical marijuana implementation costs in FY 17. These emergency funds were necessary to meet the aggressive timeline for licensing medical marijuana businesses as required by the voter-driven initiative passed on November 8, 2016. Based on information available at the time, staff had anticipated total start-up costs of \$3.5 million in FY 17 to cover the following program areas:

- Legal counsel for state and local marijuana laws
- Business license application intake and review
- Business applicant background investigations
- Medical marijuana zoning review
- Marijuana facility plan check
- Licensed facility inspections
- Tax receipt handling and lobby security
- Licensed business oversight/regulations
- Unlicensed facility enforcement
- Public outreach

Each program area listed above was originally identified and discussed in the Medical Marijuana Initiative Analysis released on August 2, 2016. Updated projections for FY 17 year-end spending levels will be provided in the second Budget Performance Report, scheduled for release in August 2017. Ongoing medical marijuana implementation costs beginning FY 18 will be addressed through the FY 18 Budget development process.

To date, a total of \$300,000 has been spent from the General Fund on the Medical Marijuana Business License Program. This includes approximately \$145,000 to develop medical marijuana business application systems, \$71,000 to upgrade tax handling and lobby security, \$61,000 to initiate the team-based administrative enforcement model, and \$23,000 on legal counsel. All other costs listed above, such as public outreach, background investigation, licensed business oversight, regulation and inspection, and general overhead have, so far, been absorbed in existing Department General Fund budgets. Further information on specific start-up cost spending to-date is provided below:

- **Medical Marijuana Business Application Systems** – City staff worked with an outside consultant to upgrade the INFOR Business License System. The INFOR system was reprogrammed to accommodate the unique medical marijuana licensing process set forth in the ballot initiative, including application intake, review, plan check, inspection, licensing, and billing. The process requires multiple layers of review, such as DOJ/FBI background investigation, buffer distance measurement, priority status check, operating plan review, and other requirements. Each review was programmed separately into the INFOR system in order to ensure proper tracking of applications. In addition, staff has developed a medical marijuana website to provide information on the application process for potential applicants. The website is updated on a regular basis, and represents one of the primary tools used by staff to communicate with medical marijuana business applicants.

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- **Tax Receipt Handling and Lobby Security** – While some progress has been made by the marijuana industry in gaining access to general banking services using regional banks and credit unions, significant challenges remain regarding universal access to banking services for all businesses. For the foreseeable future, staff anticipates having to accept some portion of medical marijuana business license tax receipts through cash payments at City Hall. These cash payments could be substantial. The City is taking the necessary precautions to prepare for this by better securing and safeguarding a cash receipt room, improving the video camera system in the cashiering area, and requiring medical marijuana businesses to make appointments for receiving cash. Scheduled appointments will allow the City to ensure that a police officer is present during drop off times. While these steps are being put into place, it is possible that a credit union will begin providing banking services to Long Beach medical marijuana businesses, in which case the number of cash deposits may reduce substantially. This outcome would be consistent with what has in fact occurred in other states that have legalized commercial marijuana. However, such an improvement in banking access could be precarious, especially given the level of uncertainty surrounding the new federal administration's position on marijuana legalization. Given this risk, the City must be prepared to keep employees and City customers as safe as possible by being prepared to receive large cash deposits. The situation will be reassessed as the legal and banking situation stabilizes.
- **Team-Based Administrative Enforcement Model** – City staff has further refined the team-based administrative enforcement model originally outlined in the Medical Marijuana Initiative Analysis released on August 2, 2016. The team-based model involves staff from Code Enforcement, Business Licensing, Fire Prevention, City Attorney, and the Police Department when necessary. Tools for enforcement include cease and desist letters, misdemeanor and administrative citations, declarations of public nuisance, notices of abatement, revocation of Certificates of Occupancy and/or Commercial Industrial Licenses, property liens, building red tags, and civil injunctions. Staff is also working with the City Attorney's Office to research and develop additional tools for enforcement at the request of the City Council, such as placing sanctions on property owners housing illegal businesses and potentially shutting off utilities for unlicensed operators.

Should you have any questions, please contact Ajay Kolluri, Assistant to the City Manager, at (562) 570-6406 or via email at Ajay.Kolluri@longbeach.gov.

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