Elections Code Section 9111 Report
Napa County Cannabis Regulation Initiative
Impact Analysis

August 20, 2019

Presented by: Mark Lovelace
ABOUT HdL

• Serves:
  – 303 cities
  – 48 counties
  – 108 transaction districts

• Partnered with over 100 local agencies to develop cannabis policies

• Team consists of former policymakers, law enforcement and cannabis regulators with State, County and local level experience

• HdL staff have experience conducting over 11,000 cannabis compliance reviews in Colorado, California and Nevada
Overview of Initiative

Cultivation

- Allows outdoor, mixed-light and nurseries in AP and AW zones
  - No discretionary approval except in certain circumstances
  - Minimum parcel size of 10 acres with various limitations
  - Maximum canopy area of 1 acre
  - Mixed light only in existing greenhouse
  - Limitations to hoop houses and lighting hours

Manufacturing, Distribution, Testing, Non-Storefront Retail

- Only allowed in AV “Airport” zone; unlikely to occur
Cannabis Cultivation and Nurseries
### Cultivation

**Not Limited by Available Parcels**

- 4,173 appropriately zoned parcels >10 acres
- 660 unconstrained parcels totaling 71,721 acres
- Average candidate parcel size: 55.8 acres
- Real estate prices comparable or lower than Sonoma County

#### Summary of Allowable Parcels for Cultivation

<table>
<thead>
<tr>
<th>PARCEL COUNTS (AP and AW zones)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total # of parcels</td>
<td>4,173</td>
</tr>
<tr>
<td>Total acres</td>
<td>300,895</td>
</tr>
<tr>
<td>Unconstrained parcels</td>
<td>660</td>
</tr>
<tr>
<td>Unconstrained acres</td>
<td>71,721</td>
</tr>
<tr>
<td>Parcels in AP zone</td>
<td>727</td>
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<tr>
<td>Parcels in AW zone</td>
<td>3,442</td>
</tr>
<tr>
<td>Touched by 1000' park buffer</td>
<td>147</td>
</tr>
<tr>
<td>Touched by 1000' school buffer</td>
<td>57</td>
</tr>
<tr>
<td>Touched by 500' residence buffer</td>
<td>3,301</td>
</tr>
<tr>
<td>Touched by 600' road buffer</td>
<td>667</td>
</tr>
<tr>
<td>Touched by 300' road buffer</td>
<td>1,691</td>
</tr>
</tbody>
</table>

Inventory excludes parcels with existing wineries, and parcels owned by public agencies.
California Cannabis Cultivation Market is Oversaturated

• Statewide consumption estimated at 2.5 million pounds per year

• 2,619 active cultivation licenses as of July 30\textsuperscript{th}

• Capable of producing 5.7 million pounds per year

• The number of active cultivation licenses has fallen by nearly half since January 1\textsuperscript{st}
Cultivation

Comparable Counties

- Active cultivation licenses
  - Lake County: 36
  - Sonoma County: 50
  - Mendocino County: 304
- Average acreage per ownership statewide: 0.51 acres
- Average among 3 neighboring counties: 0.42 acres
### Cultivation Licenses in Comparable Counties

<table>
<thead>
<tr>
<th>County</th>
<th>Number of Businesses&lt;sup&gt;1&lt;/sup&gt;</th>
<th>Number of Licenses&lt;sup&gt;1&lt;/sup&gt;</th>
<th>Combined Acres</th>
<th>Average Acres per Business</th>
<th>Number of Licenses by Cultivation Type</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Outdoor</td>
</tr>
<tr>
<td>Humboldt</td>
<td>Total</td>
<td>1,028</td>
<td>2,610</td>
<td>733</td>
<td>1,147</td>
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<tr>
<td></td>
<td>Active</td>
<td>375</td>
<td>647</td>
<td>177</td>
<td>255</td>
</tr>
<tr>
<td>Mendocino</td>
<td>Total</td>
<td>752</td>
<td>1,363</td>
<td>233</td>
<td>542</td>
</tr>
<tr>
<td></td>
<td>Active</td>
<td>254</td>
<td>304</td>
<td>53</td>
<td>156</td>
</tr>
<tr>
<td>Lake</td>
<td>Total</td>
<td>55</td>
<td>131</td>
<td>57</td>
<td>98</td>
</tr>
<tr>
<td></td>
<td>Active</td>
<td>25</td>
<td>36</td>
<td>16</td>
<td>30</td>
</tr>
<tr>
<td>Sonoma</td>
<td>Total</td>
<td>129</td>
<td>210</td>
<td>69</td>
<td>106</td>
</tr>
<tr>
<td></td>
<td>Active</td>
<td>39</td>
<td>50</td>
<td>15</td>
<td>23</td>
</tr>
<tr>
<td>Santa Barbara</td>
<td>Total</td>
<td>171</td>
<td>3,704</td>
<td>865</td>
<td>2,151</td>
</tr>
<tr>
<td></td>
<td>Active</td>
<td>68</td>
<td>845</td>
<td>194</td>
<td>446</td>
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</tbody>
</table>
Sonoma County as Comparable to Napa

- Neighboring location
- Similar topography and climate
- Sonoma is more than twice the size of Napa
- Sonoma has more than three times the population of Napa
- Sonoma was an early mover in allowing cannabis businesses
- Unlike Sonoma, the Initiative denies Napa County any significant role or discretion in shaping the location of future cultivation, or the size of individual projects
Cultivation

Cultivation Estimates

• Estimate between 50 and 100 cultivation licenses
  • 26 to 52 outdoor cultivation licenses
  • 6 to 12 mixed-light cultivation licenses
• Likely located on 32 to 64 separate parcels
• Average cultivation in other counties of 0.46 acres
• Likely range of 15 to 30 acres of cultivation, if development is consistent with average cultivation area
• Up to 64 acres if all growers used 1 acre maximum
Cultivation

**Maximum Cultivation Scenario**

- Assumes every unconstrained parcel is used for cultivation
- Assumes maximum 1 acre of cultivation on every parcel
- 660 unconstrained parcels would result in 660 acres of cultivation
- Highly unlikely, but would not be limited by the Initiative
- County would not have the discretion to limit or prevent this scenario from happening
## Revenue Estimates

### Cannabis Cultivation; Low Estimate

<table>
<thead>
<tr>
<th>License Type</th>
<th># of Cultivation Sites</th>
<th>Average Square Footage</th>
<th>Total Square Footage</th>
<th>Total Acres</th>
<th>Tax Rate/SF</th>
<th>Tax Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outdoor</td>
<td>26</td>
<td>20,000</td>
<td>520,000</td>
<td>12</td>
<td>$1</td>
<td>$520,000</td>
</tr>
<tr>
<td>Mixed Light</td>
<td>6</td>
<td>20,000</td>
<td>120,000</td>
<td>3</td>
<td>$2</td>
<td>$240,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>32</strong></td>
<td><strong>640,000</strong></td>
<td><strong>15</strong></td>
<td></td>
<td></td>
<td><strong>$760,000</strong></td>
</tr>
</tbody>
</table>

### Cannabis Cultivation, High Estimate

<table>
<thead>
<tr>
<th>License Type</th>
<th># of Cultivation Sites</th>
<th>Average Square Footage</th>
<th>Total Square Footage</th>
<th>Total Acres</th>
<th>Tax Rate/SF</th>
<th>Tax Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outdoor</td>
<td>52</td>
<td>20,000</td>
<td>1,040,000</td>
<td>24</td>
<td>$1</td>
<td>$1,040,000</td>
</tr>
<tr>
<td>Mixed Light</td>
<td>12</td>
<td>20,000</td>
<td>240,000</td>
<td>6</td>
<td>$2</td>
<td>$480,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>64</strong></td>
<td><strong>1,280,000</strong></td>
<td><strong>29</strong></td>
<td></td>
<td></td>
<td><strong>$1,520,000</strong></td>
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</table>
Nurseries

• 1 nursery for every 24 cultivation licenses statewide
• Sonoma has 2 nurseries, or 1 for every 25 cultivation licenses
• Anticipate 2 to 5 nurseries in Napa County
• Allowed in existing greenhouses or in a new greenhouse of up to 2,500 sf subject to an administrative permit
• No known existing greenhouses on allowable parcels
• No limitations on lighting for nurseries
• Commonly 18 hours of low-intensity light but may be 24 hours
Impacts on the Wine Industry

- Wine and Cannabis
- Direct Impacts to the Wine Industry
- Impacts to the Napa Brand
- County character and appellation
- Property Values
- Tourism and TOT
- Pests, Diseases and Herbicides
- Jobs, Labor and Other Businesses
• Some established names in the wine industry have been entering the cannabis market
• Owners may hold licenses in both alcohol and cannabis, **BUT:**
  • No cannabis activity is allowed on ABC-licensed premises
  • No alcohol use is allowed on any licensed cannabis premises
Direct Impacts on the Wine Industry

• If 15 to 30 acres of total cannabis cultivation area, that would equate to 0.034% to 0.07% of Napa’s 45,000 acres of vineyards.
• One acre of cannabis cultivation could yield gross receipts of $1,633,500. In 2018, one acre of vineyards yielded approximately $23,950, per the 2018 Agricultural Crop Report.
• Cannabis consumes 250 gallons per plant.
• 1,000,000 gallons per year, or 3.38 acre-feet of water per acre per year.
• Anticipated cannabis cultivation could increase groundwater consumption by 0.003% to 0.006%.
Impacts to the Napa Brand

- Cannabis growers would likely be attracted to Napa County for its renowned reputation as a premium wine growing region
- Would likely seek to develop and market products that build on and are compatible with that image
  - Unique strains of low-volume, premium cannabis
- However, the initiative denies the County any role or discretion in shaping the industry in such a way
- Could not prevent, limit or mitigate less-compatible grows
- Lack of manufacturing or retail could limit marketing options
County Character and Appellation

- Napa County known for its wines and small-town character
- The Napa County wine industry has spent considerable resources to limit use of the Napa Valley label to grapes from Napa
- Limit has created significant additional value in the Napa brand
- AVAs and appellation would be unchanged
- Napa name also applied to microbrews, olive oil, vinegar, mustard, and other specialty foods
- None of those products are Schedule I narcotics
Property Values

- Could create a market for currently undeveloped parcels
- Cannabis is not often grown in native soil
- May be suited for lands not easily developed for vineyards
- Speculation could drive up prices to lease or purchase appropriate properties
- Could result in conversion or removal of vineyards
- No expected increase to prices for industrial properties
Pests, Diseases and Herbicides

- Cannabis growers disallowed from using conventional herbicides and insecticides
- Concern this could increase introduction of pests and diseases
- Concern that insecticide or herbicide drift or irrigation runoff could contaminate cannabis and render it unsellable
- Vineyard use of herbicides and insecticides could impact nearby cannabis cultivation, leading to lawsuits, conflicts, and attempts to limit vineyard operations
Tourism and TOT

- 3.8 million visitors spent $2.2 billion in Napa County last year
- Generated $45 million in TOT countywide
- Cannabis cultivation could potentially detract from the wine industry, lodging, and restaurants through odor and visual impacts
- Full extent of impacts depends on the number and location of cannabis farms
- Could generate additional TOT through cannabis tourism but less likely due to lack of storefront retail, ability to sample
A 1-acre farm may create around 8 jobs and $373,000 in wages
- Estimate 5 full-time workers and 3 part-time workers
- Up to 512 jobs and $24 million in annual wages
- Cannabis businesses will generate economic benefits to a variety of ancillary, non-cannabis businesses
  - Many of these businesses also serve the wine industry
  - Contractors, suppliers, marketing, accounting, security, etc.
Other Potential Impacts

- Visual Impacts
- Odor
- Lighting and Noise
- Water and the Environment
- Public Health
- Youth Under 25
- Crime, Code Enforcement and the Black Market
- Other Impacts
Visual Impacts

Hoop Houses

• Allowed for 10 weeks during germination
• Likely early April through mid June, potentially later
• Picture shows a half-acre cannabis farm for illustration
• Hoop houses for germination likely smaller but not limited
Odor Impacts

- Cannabis cultivation can have a pungent, “skunky” odor
- Can reduce the quality of life for residential neighbors
- Carpenteria residents filed 166 odor complaints against neighboring cannabis businesses in 2018-2019
- County-required odor controls for personal cultivation not included in the Initiative for commercial cannabis
- Parcel sizes and setbacks may help limit proximity
Lighting and Noise

- No artificial lighting allowed for outdoor cultivation
- Mixed-light cultivation limited to existing greenhouses
- Artificial lighting limited to from 6:00 a.m. to 9:00 p.m.
  - No limitation on artificial lighting for nurseries
- Low need for lighting should limit need for generators
  - Though may be used more with nurseries
- Limits may reduce but not eliminate lighting or noise impacts
Water and the Environment

- 250 gallons of water to produce 1 pound of cannabis
  - Approximately 1,100,000 gallons per acre, or 3.38 AFY
  - Combined water use of 50.7 to 101.4 AFY
  - Total County groundwater use of 17,075 AFY
- Requires “adequate” water supply, but this is not defined
- Where no discretionary approval, no ability to analyze and mitigate environmental impacts
Likely a circular causal relationship between legalization and increased use.

Substance use disorders the leading cause of premature death.

Primarily due to alcohol and opioid use.

Conflicting studies whether cannabis reduces opioid mortality.

Traffic accidents another leading cause of premature death.

Drivers who use cannabis have up to a 6% increased likelihood of being involved in a traffic accident.

Causal relationship requires further study.
Youth Under 25

- Data shows cannabis use by youth in Napa higher than statewide average
- 49.2% of Napa 11\textsuperscript{th} graders say they have tried cannabis
- 69% of Napa 11\textsuperscript{th} graders say that cannabis is easy to obtain, even without any legal access
- Initiative would not result in any cannabis retailers, so unlikely to have any impact on the ability of youth to obtain cannabis
Crime and the Illegal Market

• Illegal market persists despite legalization
• 80% of cannabis continues to come from the illegal market, creating a continuing incentive for illegal cultivation
• Initiative does not provide the County with adequate tools or oversight to protect against diversion into the illegal market
• Other jurisdictions have experienced violent crimes, especially where cannabis operations are visible
Fiscal Impacts

• Most cultivation would not require discretionary County permits
  • Involves far less staff time than a discretionary permit
  • Deprives the County of the up-front ability to reduce impacts and protect public health and safety
• Where applicable, other permit costs would be recoverable
• Lower up-front costs, higher ongoing enforcement costs
• Inability to provide upfront regulatory oversight and permitting discretion would be an externalized cost of this initiative
Other Impacts

- No expected impacts related to traffic congestion
- Hoop houses and packaged soil may generate some amount of plastic waste
- May increase seasonal demand for farmworker housing
- May occupy sites that could be used for farmworker housing
- No expected impact to fire protection or prevention
- No expected impact to roads and infrastructure
- County could determine Williamson Act policy
- County may need to develop cash-handling policies
Summary

• No manufacturing, retail, distribution or testing
• Estimate 32 to 64 cultivation sites; average in other jurisdictions of 0.46 acres
• Could generate $760K to $1.52 million in cannabis tax revenue
• This revenue would be offset by new demands on County departments, including code enforcement and law enforcement
• Up to 512 jobs and $24 million in annual wages
Single biggest impact:

Loss of local control

The Initiative deprives the County of the ability to shape the cannabis industry in a way that reduces impacts and is compatible with existing community character and the wine industry.
<table>
<thead>
<tr>
<th>NAME</th>
<th>EMAIL</th>
<th>PHONE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mark Lovelace</td>
<td><a href="mailto:mlovelace@hdlcompanies.com">mlovelace@hdlcompanies.com</a></td>
<td>714-879-5000</td>
</tr>
<tr>
<td>Cannabis Senior Advisor</td>
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Questions?