

# **REGULATIONS FOR CANNABIS MANUFACTURING BUSINESSES**

**REQUEST FOR FEEDBACK AND DIRECTION**

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**CITY COUNCIL MEETING  
JANUARY 11, 2024**



# Background

In 2017, the City Council adopted Ordinance 1329 to establish regulations for commercial cannabis businesses. The types of commercial cannabis businesses permitted through a Conditional Use Permit (CUP) include:

- **Retail (storefront) businesses** - Planned Commercial (“PC”) and Downtown (D) district; limited to 6.
- **Testing or research laboratories** - Office Professional (OP) district and Service Industrial (SI) district.
- **Commercial cultivation businesses** - SI district.
- **Delivery-only businesses (non-storefront retail)** - SI district.
- **Distribution businesses** - SI district.
- **Manufacturing businesses** - SI district.

# Manufacturing License (CA DCC) Types

## 5 Manufacturing Licenses

- Type 7: Volatile Solvent Manufacturing
- Type 6: Non-Volatile Solvent Manufacturing or Mechanical Extraction
- Type N: Infusion of products
- Type P: Packaging and labeling
- Type S: Manufacturers who work in a shared use facility.

## Hybrid/Integration

- Type 12: Microbusiness

This license is for a business that performs at least three of the following activities at one location:

1. Cultivation – up to 10,000 total square feet
2. Manufacturing – use of non-volatile solvents, mechanical extraction, or infusion (Type 6)
3. Distribution
4. Retail – storefront or non-storefront (delivery)

# Licensed Manufacturing in Palm Desert

Business Name	CA DCC License Type
<b>Libra</b>	Type 12 - Microbusiness <ul style="list-style-type: none"> <li>• Retail (Storefront)</li> <li>• Distribution</li> <li>• Manufacturing Type 6</li> </ul>
<b>West Coast Cannabis Club (Melanie)</b>	Type 12 - Microbusiness <ul style="list-style-type: none"> <li>• Retail (Storefront)</li> <li>• Cultivation</li> <li>• Distribution</li> <li>• Manufacturing Type 6</li> </ul>
<b>Thinc Cubed</b> CURRENTLY NOT OPERATING – FIRE DAMAGE	Type 7 – Volatile Solvent Manufacturing
<b>JW Brands</b> CUP REVOKED 01/04/2024 SURRENDERING LICENSES	Type 7 – Volatile Solvent Manufacturing Retail (Delivery Non-storefront) Distribution
<b>P&amp;S Ventures</b> CUP MODIFIED 01/04/2024 SURRENDERED MANUFACTURING LICENSE	Type N – Infusion Manufacturing Distribution



# Regulatory Agencies

Agency	Responsibility	Staffing
<b>California Department of Cannabis Control (CA DCC)</b>	Initial inspection for cultivation and manufacturing; appx 18 mo's after  Investigations handled by another group	Three dedicated inspectors covering Riverside, San Diego, Imperial, Orange, and San Bernardino Counties
<b>Riverside County Fire</b>	Initial inspection when business opens  Not required by State to conduct annual inspection	No dedicated staff but have experienced, knowledgeable fire safety-combustible and cannabis compliance inspectors through the Fire Marshall's Office
<b>Riverside County Environmental Health</b>	HazMat Team only inspects for chemical/hazardous materials	Two inspectors assigned to Palm Desert area for inspections.
<b>City of Palm Desert</b>	Compliance with CUP conditions, cannabis regulations, building plans	No dedicated staff, currently using management analyst, principal planner, and code compliance staff for inspections and permitting.



# Issues to Consider

1. There is no cap on cannabis manufacturing businesses or microbusinesses.
2. Microbusinesses have been allowed through a CUP, but components of the business are prohibited, i.e. retail operation prohibited in the Service Industrial zone and manufacturing and distribution are prohibited in Planned Commercial zones.
3. Inspection and safety of cannabis manufacturing business ultimately falls on the City.
4. The Riverside County Department of Public Health refuses to issue a policy on food safety or sanitation guidance or get involved in licensing or inspecting manufacturing facilities, especially those businesses that make infused products for consumption.
5. The DCC has 3 inspectors assigned to 5 counties and can neither be proactive nor inspect each business annually.
  - 18 months between inspections
  - If inspection fails, 6-12 months (equipment not certified/serial numbers incorrect)
  - If City allows the use, the City is ultimately responsible for ensuring compliance

# Issues to Consider

6. The State exempts cannabis manufacturing businesses from an annual fire inspection.
7. Staff has concerns with the continued use of volatile chemicals in manufacturing after learning that there are no required annual inspections, and that the responsibility is on the City.
8. Some of the chemicals used have been determined by the EPA to be dangerous and result in acute and long-term health risks when inhaled.
9. Based on tax revenue, very little cannabis manufacturing has taken place.
10. The City does not charge an annual fee for Cannabis Regulatory Permits.

# Option 1

Amend the Palm Desert Municipal Code to:

- a. Prohibit cannabis manufacturing businesses, except for Type P, Packaging and Labeling.
  - CUP Required
  - Cap of 2 businesses in SI
- b. Add/Define Cannabis Microbusiness as a use
  - CUP Required
  - Limited to one (1) business in SI
  - No retail storefront, delivery only [Note: cannabis retail is prohibited in SI]
  - Manufacturing be limited to Packaging and Labeling
- c. Update/clarify any inconsistent code sections
- d. Establish an annual fee of \$2,760 for cannabis regulatory permits for Type P Manufacturing, Microbusinesses, and Distribution businesses to cover the cost of semi-annual inspections.





# Option 2

Increase staffing to ensure commercial cannabis manufacturing businesses and microbusinesses are compliant with City and State regulations.

- a. Cap of Limit the number of cannabis manufacturing businesses to two (2).
- b. Add Cannabis Microbusiness as a use that could be permitted through a Conditional Use Permit (CUP) in SI with the following use limitations:
  - Limited to one (1) business
  - No retail storefront, delivery only [Note: cannabis retail is prohibited in SI]
- c. Require employees to obtain a Riverside County Food Handler Certificate.
- d. Establish mandatory sanitation requirements for cannabis manufacturing facilities as included above.
- e. Add an additional Code Compliance Officer II position to manage the cannabis inspection program. Annual Cost (salary/benefits): \$120,000+.
- f. Send Building and Safety staff to train on cannabis plan review and enforcement. Annual Cost: \$1,500.

# Option 2 (cont.)

Increase staffing to ensure commercial cannabis manufacturing businesses and microbusinesses are compliant with City and State regulations.

- g. Contract with Riverside County Fire to conduct quarterly inspections of the five (5) existing facilities at a cost of \$545 per inspection. Cost: \$10,900+ annually.
- h. Establish an annual renewal fee of \$6,240 for manufacturing and microbusiness cannabis regulatory permits to cover the costs of quarterly inspections and a portion of the additional Code Compliance Officer II position; annual revenue projected at \$31,200 (\$20,300 city staff & \$10,900 fire inspections).
- i. Establish an annual fee of \$2,760 for cannabis regulatory permits for Cannabis Distribution businesses to cover the cost of semi-annual inspections.
- j. Update/clarify any inconsistent code sections.

<b>Estimated annual cost:</b>	<b>\$132,400</b>
<b>Estimated annual revenue:</b>	<b>\$ 69,200 (Reg. Permit \$31,200 + Taxes \$38,000)</b>
	<b>(\$63,200)</b>

# Staff Recommendation – Option 1 (modified)

Amend the Palm Desert Municipal Code to:

- a. Prohibit cannabis manufacturing businesses, ~~except for Type P, Packaging and Labeling.~~
  - ~~CUP Required~~
  - ~~Cap of 2 businesses in SI.~~
- b. Add/Define Cannabis Microbusiness as a use
  - CUP Required
  - Limited to one (1) business in SI
  - No retail storefront, delivery only [Note: cannabis retail is prohibited in SI]
  - Manufacturing be limited to Packaging and Labeling.
- c. Update/clarify any inconsistent code sections
- d. Establish an annual fee of \$2,760 for cannabis regulatory permits for ~~Type P Manufacturing,~~ Microbusinesses, and Distribution businesses to cover the cost of semi-annual inspections.

*Existing Microbusinesses Libra and West Coast Cannabis (Melanie), and Manufacturer Thinc Cubed would be considered “grandfathered”.*

