



Cannabis Fiscal/Economic Impact Study

City of Bellflower
July 10, 2017



Executive Summary

- RSG analyzed/projected the following over 10-year period:
 - Fiscal impacts
 - **Annual** net revenues begin at ***\$500,000 to \$1.2 million*** in Year 1 (2018-19) and grow to ***\$2 to \$4 million*** in Year 10
 - **Total 5-year** net revenues range ***\$4 to \$8 million***
 - Economic impacts (economic output & jobs)
 - **\$98 to \$205 million in Economic Output** in Bellflower over 10 years
 - **78 to 188 new jobs** in Bellflower by 2019-20



Background

- Proposition 64
 - Regulations not complete to date
 - Could affect projections (net revenue) and economic impacts
- Existing, actual data related to fiscal and economic cannabis impacts very limited
- Washington, Colorado, and Oregon legalized adult use of non-medical cannabis in recent years
 - Available data limited to 1-2 years
 - Not known if future California regulations will be similar

Background (continued)

3 recent studies (medical & non-medical cannabis) to develop valid assumptions to project revenues

- University of California Agricultural Issues Center - “Economic Costs and Benefits of Proposed Regulations for the Implementation of the Medical Cannabis Regulation and Safety Act (MCRSA),” prepared for California Bureau of Marijuana Control (February 23, 2017) (“UC Study”)
- Marijuana Policy Group - “The Economic Impact of Marijuana Legalization in Colorado,” prepared by the Marijuana Policy Group, October 2016 (“MPG Study”)
- California State Legislative Analyst’s Office - Proposition 64 Analysis (July 2016)



Non-Medical Cannabis – LA County

- Bellflower one of just 3 LA County cities to pass ballot initiatives on taxation and regulation of cannabis-related businesses
 - Long Beach – November 2016
 - LA - March 2017
- LA and Long Beach do not limit # of non-medical cannabis businesses
- Long Beach - tax rates for every type of outlet are higher than Bellflower
- LA - tax rates are similar or lower than Bellflower
- More cities may pursue ballot measures

Non-Medical Cannabis – LA County (continued)

Table 1

Annual Taxes and Maximum # Outlets ("GR" = Gross Receipts)

Business Type		Bellflower			Long Beach			Los Angeles		
		Taxes		Total # Outlets	Taxes		Total # Outlets	Taxes	Total # Outlets	
		Starting	Max		Starting	Max				
Dispensaries	<i>Medical</i>			12 for all business types Citywide	6% GR		32	5% GR	Not specified	
	<i>Non-Medical</i>	5% GR	10% GR		8% GR	12% GR		10% GR		
Cultivators	<i>Medical</i>	\$1,000 + \$10/sf			6% GR + \$12/sf	8% GR + \$15/sf		Not specified		2% GR
	<i>Non-Medical</i>	\$15/sf	\$25/sf							
Nurseries	<i>Medical</i>	\$1,000			6% GR + \$12/sf	8% GR + \$15/sf				2% GR
	<i>Non-Medical</i>	\$2/sf	\$5/sf							
Manufacturers	<i>Medical</i>	\$1,000			6% GR + \$12/sf	8% GR + \$15/sf				2% GR
	<i>Non-Medical</i>	5% GR	10% GR							
Testing Sites	<i>Medical</i>	\$1,000			6% GR + \$12/sf	8% GR + \$15/sf				1% GR
	<i>Non-Medical</i>	5% GR	10% GR							
Transporters	<i>Medical</i>	\$1,500		\$1,000		6% GR	8% GR		1% GR	
	<i>Non-Medical</i>									
Distributors	<i>Medical</i>	\$1,000		6% GR + \$12/sf	8% GR + \$15/sf	Not specified	2% GR			
	<i>Non-Medical</i>	5% GR	10% GR							

Assumptions



Businesses/Outlets

- 3 Dispensaries (with 1-3 transporters per dispensary)
 - Retail prices & amount product sold (UC and MPG Studies)
- 5 Cultivators
 - Total Sq Ft –available commercial industrial space in City (CoStar, May 2017)
 - 40,000 square feet of commercial & industrial space
 - *Assume total 25,000 - 50,000 sq ft of cultivation space (5 outlets)*

Assumptions (continued)



Businesses/Outlets

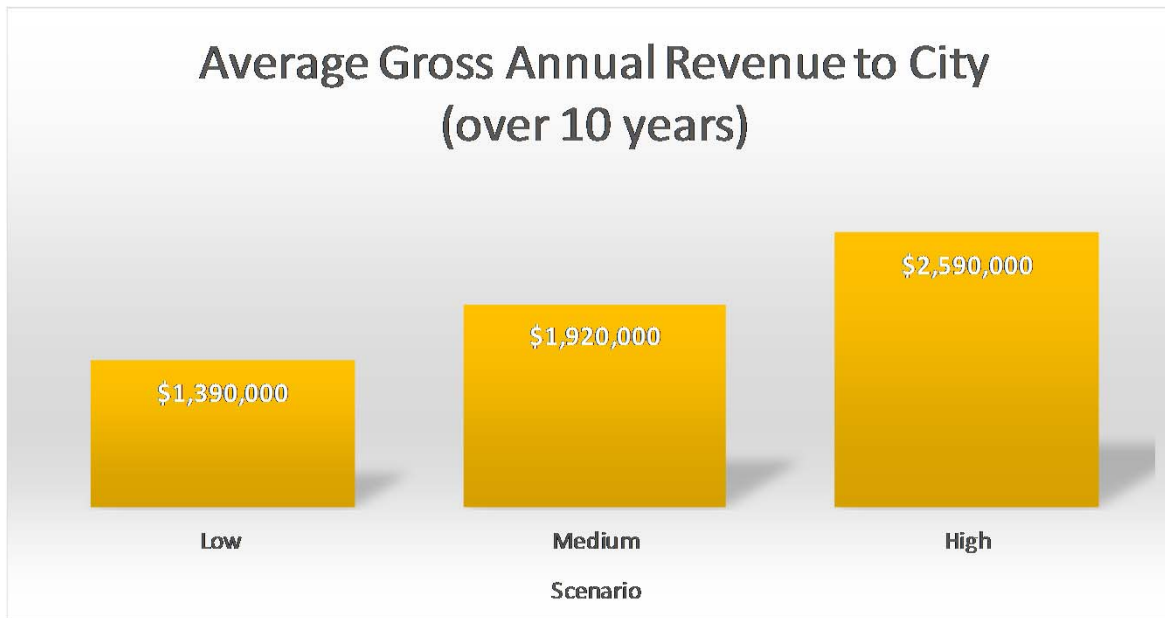
- 4 Manufacturers
 - Wholesale prices (UC and MPG Studies)
 - Amount Produced/SF - BOTECH Analysis Corporation Survey (WA)
 - Total Sq Ft - Average industrial space (built) = just under 11,000 sq ft
 - *Assume total sq ft 4 outlets = 40,000*
- Revenues
 - 40%- 50% businesses open & operating in 2018-19
 - 100% businesses open & operating by summer 2019

Fiscal Analysis/Impacts



- 3 scenarios – Low, Medium and High (Revenues)
- Low scenario
 - Most conservative assumptions (Worst Case Scenario)
 - Highest costs & lowest amount of revenue
- High scenario
 - Most optimistic assumptions (based on data)
 - Lowest costs & highest revenues
- Medium scenario
 - Midpoint

Fiscal Analysis/Impacts – Gross Revenue to City



- **Low scenario**
 - (\$600,000 to \$2 million /year)
- **Medium scenario**
 - (\$900,000 to \$2.8 million /year)
- **High scenario**
 - (\$1.3 to \$3.8 million/year)

Fiscal Analysis/Impacts – Costs Covered By *Permit Fees*

Table 4

Staff Costs/Permit Issued (*recovered by permit fees*)

City Department	Tasks	Estimated Annual Costs (2017 \$)
City Manager	<i>Prepare Application/establish minimum threshold requirements Application/Conditional Use Permit review Business Permits & Renewals Issue/enforce/renew Business Permits</i>	\$1,046
City Attorney	<i>Document review/enforcement</i>	\$1,750
Economic Development	<i>Coordination with business owners</i>	\$697
Finance	<i>Annual Review of Gross Receipts</i>	\$620
Planning	<i>Conditional Use Permit/Application Review</i>	\$3,432
	<i>Contract Planner (starting January 2018 and ending July 2019) *</i>	\$143,000
Public Safety	<i>Review and approve Operations Plan Background checks</i>	\$1,066
Building	<i>Review and approve Operations Plan Respond to complaints/review operational standards Check fire suppression system for cultivation</i>	\$222

* A contract planner is anticipated to assist with the application process until all 12 businesses are established. The contract is assumed to run from January 2018 through July 2019.

Fiscal Analysis/Impacts – Costs Not Covered By Permit Fees

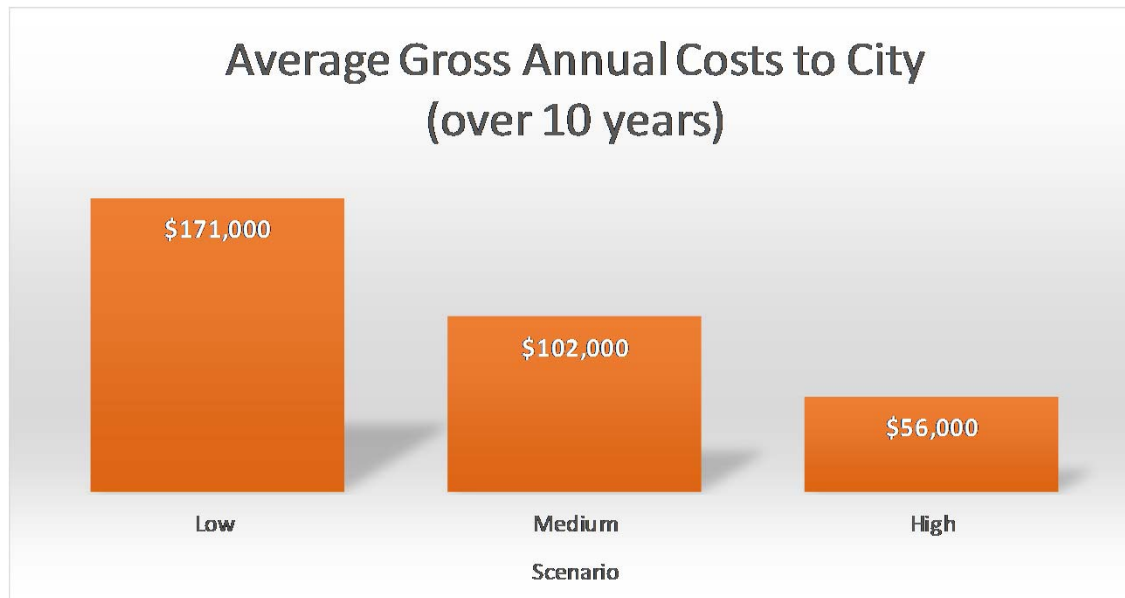
Table 5

Additional Staff Costs (*not covered by permit fees*)

City Department	Tasks	Average Annual Costs	
		Initial	Ongoing
Public Safety (Initial Cost for Yrs 1 and 2)	<i>Approve Operations Plan for each business Checking for compliance with standards and regulations Background Check for each owner</i>	\$4,700 to \$6,200	\$900 to \$1,300
City Attorney (Initial Cost @ \$50,000 in Yr 1)	<i>Criminal/civil violations Recovery of fines, penalties, forfeitures Other enforcement</i>	\$50,000	\$43,400 to \$46,800
Additional Administrative and Enforcement Costs *	<i>Additional Public Safety Staff training for select department Subject matter experts retained to assist with auditing/administration</i>	\$9,400 to \$101,400	\$10,300 to \$121,700
Total Additional Costs		\$64,100 to \$157,600	\$54,600 to \$169,800

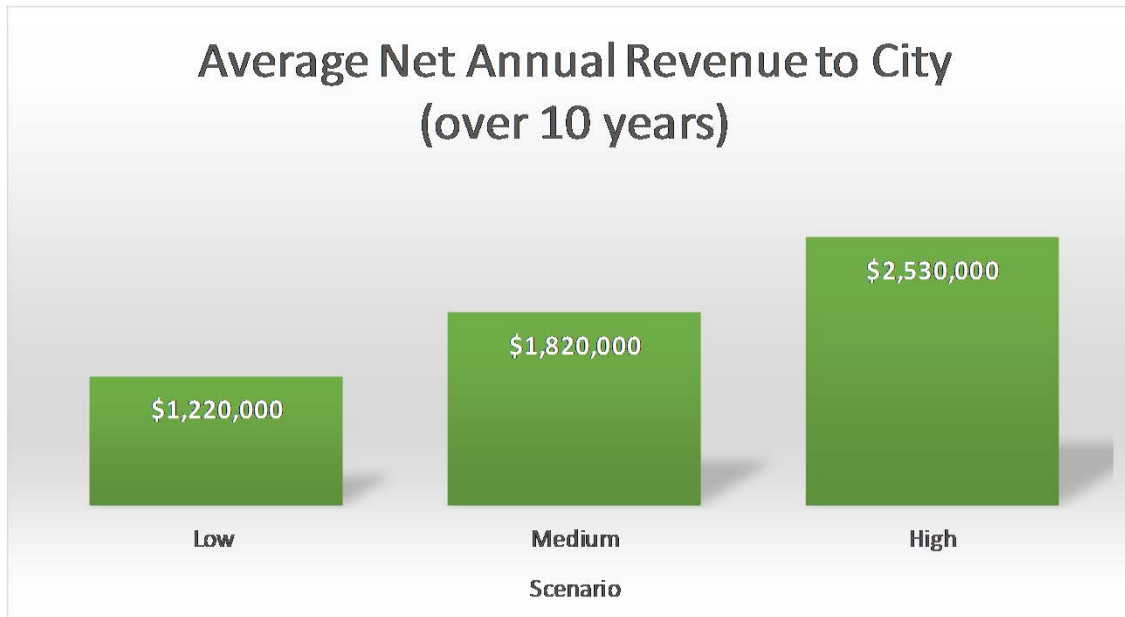
* - these costs are assumed to begin in year 1 and remain at constant levels.

Fiscal Analysis/Impacts – Gross Costs to City



- **Low scenario**
 - (\$157,000 to \$198,000/year)
- **Medium scenario**
 - (\$103,000 to \$113,000/year)
- **High scenario**
 - (\$59,000 to \$64,000/year)

Fiscal Analysis/Impacts – Net Revenue to City



Low scenario

- (-\$157,000 to \$1.8 million/year)

Medium scenario

- (-\$103,000 to \$2.7 million/year)

High scenario

- (-\$64,000 to \$3.7 million/year)

Start-up Costs Cause Negative in Year 1 (paid back to General Fund)

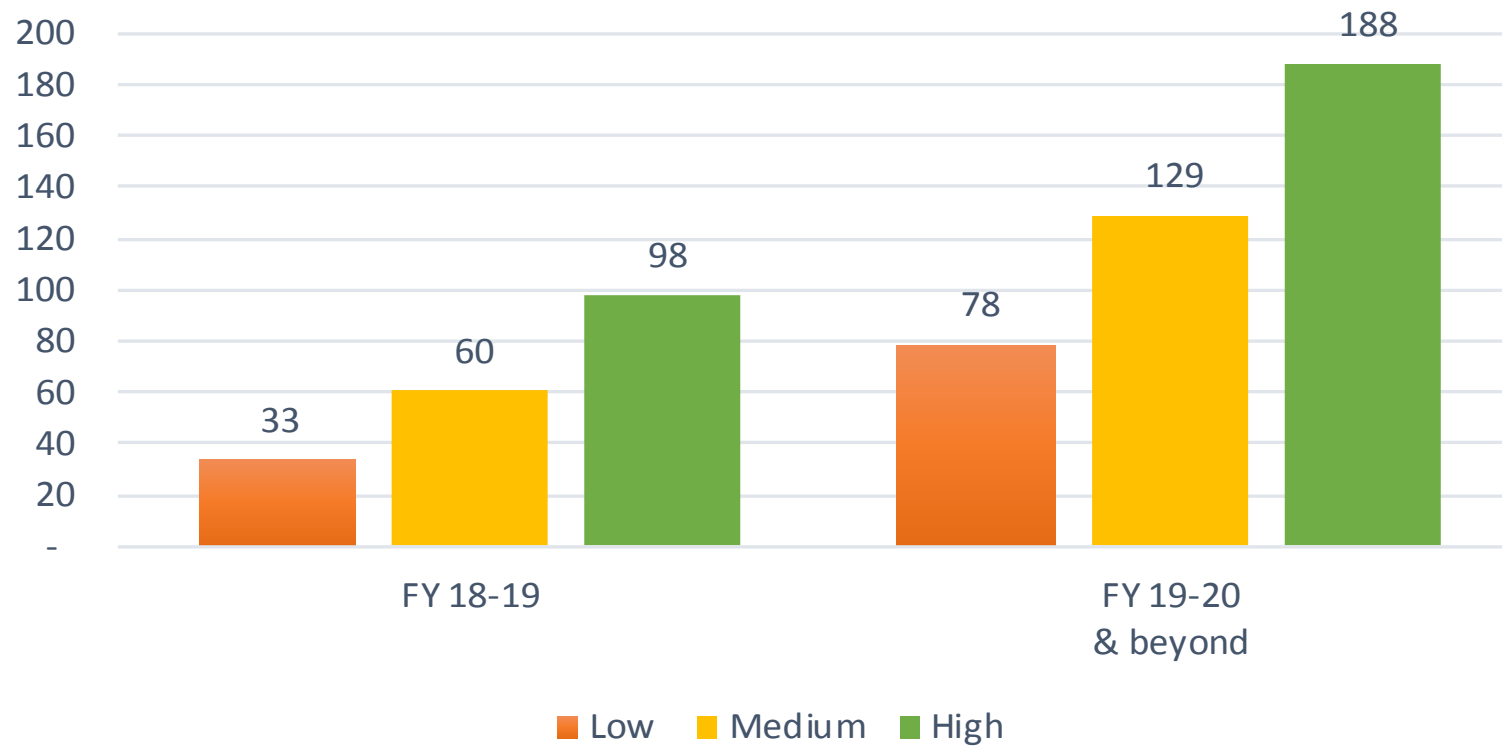
Economic Impacts



- IMPLAN Economic Model
 - Industry standard – cited in UC Study and other documents
 - Direct Effect- Production & expenditures by producers/consumers as a result of activity or policy
 - Indirect Effect- Impacts of local industries buying goods and services from other local industries
 - Induced Effect- Response by economy to initial change (Direct Effect) through re-spending of income. Income recirculated through household spending causing further local economic activity

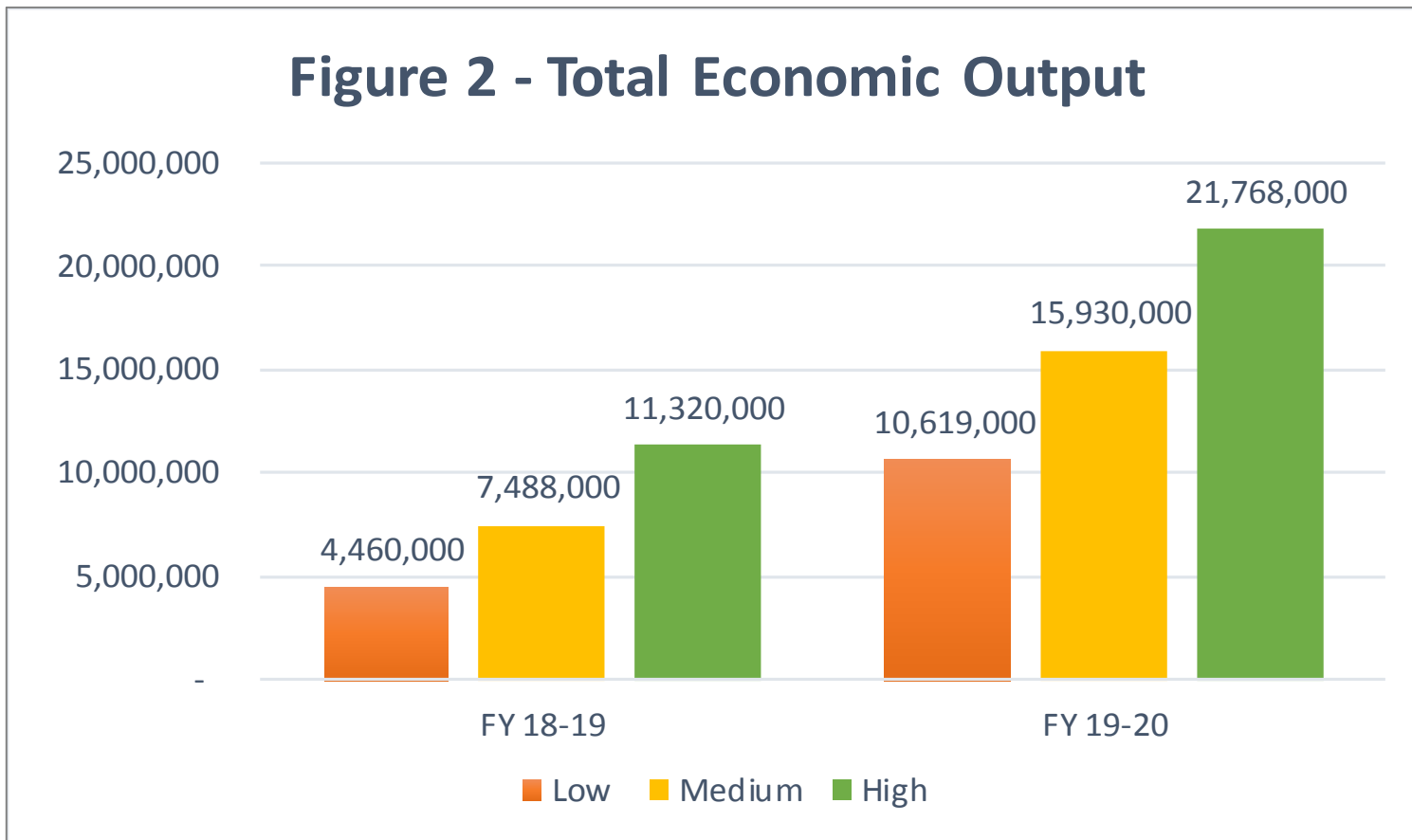
Economic Impacts - Jobs

Figure 3 - Total Employment



Economic Impacts – Output (Years 1 & 2)

Economic Output – value of goods & services produced in geographic area



Economic Impacts – Output (Years 1 -10)

Economic Output – value of goods & services produced in geographic area

	Year 1	10-Year Period	NPV (2017 \$)
Direct	\$3.6 - \$9 M	\$78 - \$162 M	\$61 - \$127 M
Indirect and Induced	\$900,000 - \$2.5 M	\$20 - \$43 M	\$15 - \$33 M
Total	\$4.5 to \$11.3 M	\$98 to \$205 M	\$76 to \$160 M

Fiscal Impact – Indirect and Induced Output

Year	Low	Medium	High
FY 17-18	\$0	\$0	\$0
FY 18-19	\$5,000	\$9,000	\$14,000
FY 19-20	\$12,000	\$19,000	\$26,000
FY 20-21	\$13,000	\$19,000	\$27,000
FY 21-22	\$13,000	\$20,000	\$28,000
FY 22-23	\$13,000	\$20,000	\$29,000
FY 23-24	\$14,000	\$21,000	\$30,000
FY 24-25	\$14,000	\$21,000	\$30,000
FY 25-26	\$14,000	\$22,000	\$31,000
FY 26-27	\$15,000	\$23,000	\$32,000
Total	\$113,000	\$174,000	\$247,000
NPV (4%)	\$88,201	\$135,996	\$193,187



Questions and Answers