



City Council Agenda Item Staff Report

CITY OF SAN BRUNO

DATE: February 8, 2022

TO: Honorable Mayor and Members of the City Council

FROM: Jovan Grogan, City Manager

PREPARED BY: Pamela Wu, Director

SUBJECT: Conduct Study Session and Provide Direction Regarding Possible Changes to City Cannabis Ordinances

EXECUTIVE SUMMARY:

The purpose of this study session is for the City Council to receive information regarding potential amendments to its cannabis ordinances and to provide direction to staff regarding the types and locations of cannabis businesses desired in the city.

BACKGROUND:

Previous Cannabis Regulatory Actions in California and San Bruno

The State of California's Proposition 64 was adopted on the November 8, 2016 ballot (the Adult Use of Marijuana Act or "AUMA"). The Act provides that:

1. Recreational cannabis use, possession, transportation, and purchase of specified amounts by adults 21 years or older is legalized, except that certain activities, such as possession or smoking cannabis will still be prohibited in those places otherwise prohibited by state law (such as places of employment) or local ordinance;
2. Individuals who are 21 years or older are allowed to grow up to six cannabis plants per residence, indoors, for their personal recreational use; and
3. Commercial non-medical cultivation, processing, laboratory testing, labeling, storing, wholesale distribution and retail sales of cannabis is now controlled, licensed, and taxed by an agency to be designated as the Bureau of Cannabis Control, located within the state Department of Consumer Affairs.
4. In 2020, the delivery of cannabis to adults 21 years or older was legalized statewide. Even if a local jurisdiction prohibits all types of cannabis businesses, local jurisdictions cannot prohibit cannabis deliveries into their jurisdictions from an outside delivery service.

With the approval of Proposition 64, state licenses for commercial non-medical marijuana activities started to be issued in January 2018. Under the rules, which now refer to marijuana as cannabis, local jurisdictions may regulate, but cannot ban, personal cultivation of up to six (6) cannabis plants within a single private residence. A local jurisdiction may ban or regulate personal outdoor cultivation. Further, a local jurisdiction may ban or regulate all commercial cannabis activities, except for the lawful transportation of cannabis (or cannabis products) on public roads.

Presently, San Bruno Municipal Code Chapter 6.58 prohibits all medical marijuana distribution facilities throughout the city. Collective or cooperative cultivation of medical marijuana is also prohibited. When it was adopted in 2011, this ordinance did not apply to any of the recreational, personal, or commercial non-medical activities that Proposition 64 later authorized cities to permit.

In November 2018, the City Council adopted an ordinance, codified as Chapter 6.59 of the Municipal Code, regulating indoor cultivation of cannabis in residences for personal use and only to the extent allowed by state law, and prohibiting the manufacture, processing, laboratory testing, labeling, storing, wholesale and retail sale and distribution of non-medical cannabis throughout the city.

In November 2020, following City Council action to place a measure on the ballot, San Bruno voters approved a cannabis business tax measure which imposes a 10% tax on the gross receipts generated by any cannabis business activity that may be ultimately allowed to operate in the city.

Recent City Council Direction to Staff

The City Council recently established its 2021 work priorities, and, as part of that action, directed staff to explore possible changes to the Municipal Code and Zoning Code to allow for selected commercial cannabis activities. This Study Session summarizes staff's initial work, while soliciting direction to amend existing Municipal Code ordinances and adopt an amendment to the zoning ordinance to permit commercial cannabis businesses.

DISCUSSION:

Possible Options for Commercial Cannabis Program

There are several options for Council consideration regarding the City's commercial cannabis ordinances:

1) Modify the Municipal Code and Adopt New Sections of the Zoning Code to allow certain types of cannabis uses:

Under this approach, the City Council could consider providing for one or more types of commercial cannabis uses:

- a. Maintain provisions for personal cultivation/use of up to six plants (as noted above).
- b. Allow for Storefront Sales (previously termed "dispensaries") in selected areas of the city – see location discussion, below. These uses would be allowed subject to obtaining approval of a Conditional Use Permit. Storefront Sales would allow for general retail sales of cannabis or cannabis products, packaging and labeling of cannabis for sale, and could also include delivery services to residences or end-users.
- c. Allow for Consumption Lounges (also known as "cannabis cafes") in selected areas of the city – see location discussion, below. These uses would be allowed subject to obtaining approval of a Conditional Use Permit. A consumption lounge is a type of retail cannabis business which

would offer the opportunity to customers to ingest, smoke or vape cannabis products on site. However, there are restrictions imposed by state law on this type of use, notably: access to the area where consumption would occur is restricted to persons 21 years of age or older; cannabis consumption may not be visible from any public place or nonage-restricted area; and sale of alcohol or tobacco would not be allowed on the premises.

Should the City Council wish to allow commercial cannabis establishments, staff proposes that the Council authorize up to a total of four commercial cannabis operations in the city, involving Storefront Sales or Consumption Lounge operations, or a combination of the two.

d. Allow for focused Delivery Services (commercial cannabis distribution) in selected areas of the city – see location discussion, below. These uses would be allowed subject to obtaining approval of a Conditional Use Permit. Delivery Services would provide for storage and distribution of commercial cannabis products to licensed commercial cannabis operations. Any distribution service would be required to comply with security and transportation requirements.

e. Based on the City Council feedback to prioritize the development of regulations for cannabis storefront sales, consumption lounges and delivery, staff did not evaluate additional commercial cannabis uses (described below) during this initial review. As such, regulations are not proposed for the following cannabis businesses type and they are proposed to remain unpermitted/unallowable within the City of San Bruno.

- *Commercial Cannabis Cultivation* (This use involves the commercial planting, growing, harvesting, drying, grading and trimming of cannabis, and can occur indoors or out, including in a nursery setting.)
- *Commercial Cannabis Manufacturing*, including CBD (cannabidiol) extract. (This use involves subjecting cannabis to a process which concentrates cannabis into an edible or topical product.)
- *Commercial Cannabis Testing/Laboratories* (This use involves state-mandated testing of cannabis products in a state-licensed laboratory setting prior to distribution and sale.)
- *Cannabis Microbusinesses* (This is a business involved in at least three types of commercial cannabis activities, such as retail sale, cultivation and manufacturing).
- *Temporary Cannabis Events* (This is an event where cannabis may be consumed over a short period of time and at a temporary event location.)

2) Maintain Current City Code:

Under this approach, the City would simply maintain its current provisions which allow for indoor cultivation of cannabis for personal use and limited to no more than six plants per residence (permitted under Municipal Code Section 6.59.030). The current Municipal Code disallows any other medical or commercial cannabis operations (per Municipal Code Chapters 6.58 and 6.59).

Possible Locations for Selected Commercial Cannabis Uses

Staff evaluated several areas that could adequately support commercial cannabis activities (for Storefront Sales and Consumption Lounge uses). Considerations included: adequate vehicular, bicycle and pedestrian access; underlying zoning (commercial or mixed-use zoning); and nearby sensitive land uses.

The primary area for potential commercial cannabis uses focused on the downtown and its key transportation corridors (El Camino Real, San Mateo Avenue and San Bruno Avenue). (See

Attachment 1 – Potential Commercial Cannabis Locations by Zone). In these areas, consisting of C-B-D, MXR, TOD1, TOD2 and P-D zones within the Transportation Corridors Plan area, there is mainly a mix of commercial and office uses. Additionally, commercial cannabis delivery services can be considered an appropriate land use in the M-1 (Industrial) Zone north of San Bruno Avenue if delivery services are desired in the city.

Other locations were considered but later eliminated from further evaluation by staff, primarily because of potential conflicts with area land uses, such as schools and parks, or because of the type and range of commercial uses within shopping centers and office parks. Areas which had been considered included:

- The Shops at Tanforan
- Towne Center shopping center
- The Crossing
- Bayhill Office Park
- Neighborhood shopping centers

Consideration of Sensitive Uses Near Commercial Cannabis Operations

State cannabis law (Health and Safety Code) identifies several categories of land uses that are considered sensitive uses when in proximity to commercial cannabis activities:

- Youth Centers (defined as any public or private facility that is primarily used to host recreational or social activities for minors).
- Daycare Centers (defined as a childcare center, other than home-based day care operations, and includes licensed childcare centers).
- Schools (defined as K-12 public or private schools).

State law identifies a standard 600-foot separation (buffer) between a proposed commercial cannabis use and a youth center, daycare center and school. However, this 600-foot separation can be modified by local ordinance, making the required separation distance greater or less than 600 feet.

Additionally, by local regulation, other uses could be included in the list of sensitive uses. Staff recommends that city neighborhood parks also be included as a sensitive use when considering potential locations for commercial cannabis uses due to a park site being a potential area of outdoor congregation of people in an unregulated public setting that may also include substantial numbers of children at any given time. The one exception to the park criteria is Posy Park. This area was not included as a sensitive use because Posy Park, while called a “park”, is a plaza in front of the San Bruno Caltrain Station that does not contain park amenities or youth related play structures.

Accordingly, staff has prepared *Attachment 2, Area Sensitive Use Sites*. This map shows existing sensitive uses (youth centers, daycare centers, schools and parks) overlaid on the potential commercial cannabis area map provided in Attachment 1, and depicts a 600-foot buffer around these sensitive use property boundaries in the downtown area. In applying these setbacks, three general areas emerge for possible commercial cannabis (Storefront Sales and Consumption Lounges) that would avoid conflicting with nearby sensitive uses: 1) central area of the downtown along San Mateo Avenue, 2) areas near the downtown along San Bruno Avenue, and 3) areas along El Camino Real south of I-380 and south of the El Camino Real south of San Felipe Avenue.

Regulating Commercial Cannabis Operations

Staff recommends that a Conditional Use Permit be required for Storefront Sales, Consumption Lounges and Delivery Service commercial cannabis activities. Communities allowing for commercial cannabis uses frequently utilize the Conditional Use Permit process. Conditional Use Permit action appears to be appropriate for commercial cannabis activities as the cannabis industry is highly regulated, and as the nature of commercial cannabis uses has the potential to raise community or neighborhood concerns as to safety, operational details, and with respect to land use compatibility Conditional Use Permits would also ensure full public access to the entitlement process, as Conditional Use Permits would require public hearings and action before the Planning Commission. Further, any action of the Commission could be appealed to the City Council by applicants, neighbors, or any interested member of the public.

The Conditional Use Permit process can also be combined with what effectively would be a “pre-qualification” review, in which prospective applicants would file a pre-application detailing staffing, background checks, compliance with state law, quality control and other measures; if pre-qualification is approved (which could be done by staff), the applicant would be cleared to formally file a Conditional Use Permit application for processing.

State licenses would also be required for all commercial cannabis operations. There are many types of licenses, though the most likely licenses applicable to San Bruno cannabis businesses would be for Type A 10 (Retailer) and Type 11 (Distributor). Licenses are issued by the state for a period of one year, and can be renewed annually. Type A licenses prohibit sales of commercial cannabis products to persons under the age of 21 and do not allow persons under 21 to be on licensed premises.

The following table summarizes key commercial cannabis zoning regulations for Storefront Sales, Consumption Lounges and Delivery Services.

	Storefront Sales (Dispensaries)	Consumption Lounges (Cannabis Cafes)	Delivery Service Operations
<i>Qualifying Locations, by Zoning District</i>	In TCP areas in C-B-D, MXR, TOD1, TOD2 and P-D Zones	In TCP areas in C-B-D, MXR, TOD1, TOD2 and P-D Zones	In M-1 Zone north of San Bruno Avenue
<i>Conditional Use Permit Required</i>	Yes	Yes	Yes
<i>State License Required</i>	Yes	Yes	Yes
<i>Age Restrictions (21 or older)</i>	Yes	Yes	Yes
<i>Separations Required</i>	600 ft from: Youth Centers, K-12 Schools and Day Care operations; Staff also recommends adding Parks as sensitive use; 600 ft between cannabis uses	600 ft from: Youth Centers, K-12 Schools and Day Care operations; Staff also recommends adding Parks as sensitive use; 600 ft between cannabis uses	600 ft from: Youth Centers, K-12 Schools and Day Care operations; Staff also recommends adding Parks as sensitive use; 600 ft between cannabis uses
<i>Suggested Maximum</i>	Up to 4 Storefront Sales	Up to 4 Storefront Sales	1 Delivery Service

<i>Number of Cannabis Uses</i>	<i>and/or Consumption Lounges (total not exceeding 4)</i>	<i>and/or Consumption Lounges (total not exceeding 4)</i>	<i>operation</i>
<i>Operational Criteria:</i>			
<i>Hours of operation</i>	Per CUP conditions	Per CUP conditions	Per CUP conditions
<i>Employee training</i>	Required with CUP	Required with CUP	Required with CUP
<i>Odor control plan</i>	Required with CUP	Required with CUP	Required with CUP
<i>Security plan</i>	Required with CUP	Required with CUP	Required with CUP
<i>Security systems</i>	Required with CUP	Required with CUP	Required with CUP
<i>Parking and loading</i>	As required by CUP	As required by CUP	As required by CUP
<i>Hazardous materials plan</i>	N/A	N/A	Required with CUP
<i>Storage of product and disposal of unused cannabis</i>	Limited with CUP	Limited with CUP	Limited with CUP
<i>Signage</i>	Per Sign Permit	Limited placement	No outside signs
<i>On-site consumption</i>	Not allowed	Only allowed if: -No alcohol or tobacco sales or consumption -Customers 21 years of age or older -Not visible from public sidewalk or street -Inside consumption only	Not allowed
<i>Delivery plans and routes</i>	N/A	N/A	Plan required with CUP
<i>GIS for delivery vehicles</i>	N/A	N/A	Required
<i>Insurance</i>	Required	Required	Required

Security Provisions for Commercial Cannabis Operations

There are a wide range of security provisions that can be required for commercial cannabis operations, which can be imposed as conditions of approval. These typically take the form of a required security plan to be prepared by a commercial cannabis operator, submitted for review and approval by the local jurisdiction where the operation will occur. Security provisions can include, though would not necessarily be limited to:

- Security personnel staffing plan: this would address the proposed number of security personnel on-site at any given time, as well as certifications of the personnel.
- Prevention of trespassing: the security plan would identify measures to prevent trespass by persons not authorized to be on the subject property.
- For Storerfront Sales uses, a prohibition on smoking and/or consumption of cannabis products.
- Disposal of unusable cannabis products: the security plan would address how expired, contaminated, or other types of excess cannabis products are to be disposed of.
- Prevention of adverse impacts to adjacent properties: measures would be identified to avoid any significant adverse impacts to adjacent properties and land uses.

- Handling of cash: clear measures would be required indicating how cash or other currency would be safeguarded, including for secure transport to a bank or other location.
- Handling of cannabis: best practices would be required for the security plan indicating how cannabis products would be transported to and from a site. For any delivery services, a transportation plan would be required providing details for the safe and secure transport of cannabis and cannabis products.
- Cannabis inventory control: the security plan would need to identify an inventory control and reporting system addressing types, amounts and locations of cannabis at the site.
- Customer records: measures would be necessary to maintain secure records of all persons served.
- Financial records: measures would be necessary to maintain secure financial records for all transactions conducted, along with revenues generated.
- Building security: this would be a key part to a security plan, and would include use of an alarm system, and a building and site surveillance system.

Other Considerations

Amendment to City Smoking Regulations

The city adopted Smoking Regulations (Municipal Code Chapter 6.56), prohibiting non-consensual exposure to secondhand smoke, defining the uninvited presence of secondhand smoke on property as a nuisance and trespass. Section 6.56.010(n) includes “marijuana” in the definition of “smoking.” Certain exemptions apply to the regulations, including a commercial use categorized as a “significant tobacco retailer,” which is a permitted tobacco retailer who derives 75% or more of their gross sales revenue from sale of tobacco or tobacco products. Staff suggests an amendment to Chapter 6.56 could be included as part of any city commercial cannabis program that identifies smoking of cannabis within permitted Consumption Lounges as being exempt from the Smoking Regulations, subject to compliance with all other applicable city commercial cannabis regulations, including odor control, prohibiting outdoor consumption of cannabis, etc. This amendment would not affect the ongoing prohibition on smoking elsewhere in the city.

Revenues from Commercial Cannabis Operations

In November 2020, San Bruno voters approved a ballot measure imposing a 10% tax on the gross revenues of any commercial cannabis activity that the city ultimately allows. The tax will apply in addition to the general business license tax imposed by the city. The City Council could lower the tax rate, but an increase would require voter approval. Tax revenue rates vary for nearby jurisdictions, ranging from 2 to 10%, with South San Francisco using tax rates of 3% to 5%, and Pacifica charges 8.75%, while approved local tax rates in California range from 2 to 20%. Proposed tax rates for the City of San Bruno will be discussed at a future study session, following City Council feedback and direction on the proposed uses and regulations in this staff report.

In 2020, when evaluating the potential to place this ballot measure before San Bruno voters, the City Council was advised by cannabis consultant HdL that there are a variety of barriers to entry in locations where no cannabis businesses already exist: 1) the permitting fees established by local cost recovery ordinances, 2) the lack of authorized banking services in the state, 3) the continued existence of a robust underground business that is not taxed, and 4) the reticence of both foreign and US investors and property owners to invest in a business whose product is still

illegal to possess under federal law. Formal San Bruno projections for cannabis revenues were not available at that time.

Staff reviewed a 2020 analysis prepared by Applied Development Economics (ADE), in which San Bruno was analyzed. The study showed potential for between one to five new cannabis operations, based on per capita data in California for commercial cannabis demand. If five new cannabis operations were started in San Bruno, using the current 10% tax, annual revenue generation to the city was estimated at \$1.1million, while one new commercial cannabis operation could be expected to generate \$235,000 per year.

Permitting fees would also be established for a city commercial cannabis program. Application fees would presumably be tied to full cost recovery for staff and consultants, and would be expected to be in the \$10,000-\$18,000 range per application, depending upon the complexity, setting and operational factors of the proposed project. Application fees vary in area jurisdictions, with a low of \$1,642 in Half Moon Bay to a high of \$22,000 in Redwood City. Additionally, annual permitting (operating) fees could be established. These also vary widely in area jurisdictions, with a \$3,000 annual renewal fee in San Carlos, \$5,300 in Half Moon Bay, \$16,000 in South San Francisco, and \$29,000 in Redwood City.

Staff has reviewed local municipality cannabis projected annual revenues (and obtained actual revenue figures, where available) where commercial cannabis activities are permitted, and found that they range from less than \$100,000 (in South San Francisco, which has two licensed commercial cannabis operations), +\$200,000 (in Redwood City, with four licensed operations), to a 2021 annual program income of \$572,000 (in Pacifica, which has five licensed operations, including “legacy” operations which preceded recent state enabling cannabis law). As noted above, proposed tax rates and revenue projections for the City of San Bruno will discussed at a future City Council study session.

Cannabis Uses in Nearby Cities

Several nearby cities have adopted commercial cannabis provisions.

Eleven cities (San Bruno, Burlingame, Millbrae, Colma, Hillsborough, Foster City, Menlo Park, Atherton, Belmont, East Palo Alto and Woodside) continue to prohibit any commercial cannabis activities, and therefore do not receive revenue from such activities.

Eight cities (San Mateo, Redwood City, Daly City, San Carlos, South San Francisco, Half Moon Bay, Brisbane, and Pacifica) and the County of San Mateo have adopted cannabis ballot measures to tax and/or regulate specific commercial activities in their respective cities. The tax rates adopted by the voters in these jurisdictions range from 2.5% to 10%. Within the cities that permit commercial cannabis uses, licenses have been obtained for storefront sales, delivery services, indoor cultivation and laboratory testing. Licensing of commercial cannabis in San Mateo County jurisdictions has been primarily for cultivation/nurseries. A summary of local jurisdiction commercial cannabis regulations is attached to this staff report.

NEXT STEPS:

With input and as directed by the City Council from this Study Session, staff can next prepare 1) an Ordinance repealing the current Municipal Code provisions that prohibit commercial cannabis uses in the city (MC Section 6.58), and 2) a Zoning Ordinance amendment to provide for selected commercial cannabis uses. First, the Ordinances would be presented for review at

a public hearing before the Planning Commission, and, then the Ordinances would be scheduled for consideration at a City Council public hearing and subsequent adoption, anticipated for Fall 2022. Additionally, prior to convening any public hearings and if directed by Council, the city can do public outreach on the intended commercial cannabis program through a community workshop, focused outreach or other community involvement forum.

Additionally, staff will develop the commercial cannabis use permit application requirements, forms, checklists, guidelines, informational handouts and other related materials for commercial cannabis that may be permitted as part of the city's commercial cannabis program.

FISCAL IMPACT: Costs for development of the commercial cannabis program (\$36,000) were previously allocated by City Council. Costs for processing of any future use permit applications for commercial cannabis uses would be fully borne by payment of application fees (posting of a deposit for Conditional Use Permit processing and establishment of an annual permit fee). As noted above, proposed tax rates and revenue projections for the City of San Bruno will be discussed at a future City Council study session.

ENVIRONMENTAL IMPACT:

Establishment of commercial cannabis regulations has the potential to be categorized as a "project" pursuant to the California Environmental Quality Act (CEQA). The determination of the type of CEQA document that may be required would be dependent upon the type of cannabis program parameters the city may wish to pursue, as well as the locations for the commercial cannabis uses. If the commercial cannabis program involves relatively minor amendments to the Municipal Code, it is possible that an exemption to CEQA review would apply, while more extensive changes – particularly those that could result in potential for creation of new and potentially significant environment impacts involving issues such as traffic, air quality and land use – would result in completion of an Initial Study and presumed use of Negative Declaration or Mitigated Negative Declaration. Staff anticipates use of a Categorical Exemption for the commercial cannabis program outlined in this report, providing for up to four Storefront Sales and/or Consumption Lounges in the downtown core zones, and for up to one Delivery Service operation in the M-1 zone area north of I-380.

Once a commercial cannabis program is enacted through Municipal Code changes, each individual commercial cannabis project would be subject to submittal of a Conditional Use Permit, as discussed above, and would also be subject to potential environmental review. Staff anticipates that many of these projects would qualify for use of a Categorical Exemption under CEQA as they can utilize existing commercial buildings, with construction likely limited to minor new construction/tenant improvements (requiring a building permit), and with commercial cannabis uses being similar in nature to other retail uses that would otherwise be permitted by the underlying zone.

RECOMMENDATION: Receive information regarding potential amendments to the city cannabis ordinances and provide direction to staff regarding the types and locations of cannabis businesses desired in the city.

ALTERNATIVES: The Council can determine that there will be no changes made to the city's commercial cannabis regulations at this time, and no further action would be required.

ATTACHMENTS:

1. San Bruno – Draft Potential Cannabis Qualifying Zones
2. San Bruno – Area Sensitive Land Uses
3. Summary of Local Jurisdiction Commercial Cannabis Regulations