

Dear Honorable Board of Supervisors,

With discussions beginning about the other non-cultivation license types, I would like to express some ideas that I developed over the course of the last few years. Cultivation is only one point of the supply chain and the success of a cultivator, district, county, and state as a whole will depend upon a well-greased moving supply chain. This letter will discuss the problems in the foreseeable future and provide some insight and solutions for those issues. I know some of these topics may have been presented to the board by other groups or agencies, but I hope I am offering another point of view that will help you in determining what is best for our county as we move forward with our cannabis industry. The main theme of this letter is the need for a quick adoption or even emergency order for ***micro-business licensing***.

I understand that this may be a long letter or more of a paper, but I ask you to please to read as much of it as you can. These are issues I feel are more important than many of the ones that are constantly being argued over, preventing discussions on items that will be necessary for a thriving cannabis industry for Mendocino County.

Background:

The state is going to begin issuing the different types of cannabis licensing beginning on Jan 1st of 2018. It is abundantly obvious that many of these businesses have already been in operation acting within either some local legal capacity, in some gray area of the law, or just completely illegally. For example, there has been no state transportation license for transporting cannabis products, but products have been moving between counties across the state for a good many of years and it has been to the discretion of a police officer making a discovery of such transportation to determine if an arrest or seizure should be made.

With licensing being established and permits being allocated, this current gray area will become black and white overnight; either someone has a permit or they do not. This will ultimately be a great benefit to the cannabis market as a whole, but not without some severe growing pains which will be explored later in this letter.

Cultivators here in Mendocino County have been accustomed to doing very little as far as sales or proper supply-chain economics. Most cultivators had a select number of buyers who came to their locations up in the hills and purchased all of their product in large amounts COD and the cultivators would have all their product sold within a very short period of time. This last year was the first time that has not been the case and many cultivators are still storing large quantities of 2016's crop which has a value of zero today. That change occurred from an over surplus of product on the black and dispensary market. For cultivators getting licensed here in Mendocino County, they will have to provide proof of proper tracked and traced product all along the product's chain of custody. This forces cultivators to rapidly learn proper sales, logistics, packaging, and negotiating skills they have never had to address until now. They will need to allocate resources and abilities they just do not possess which could lead to them either becoming licensed and still selling within the black market and or going out of business.

ISSUES

Logistics:

Mendocino County is vast and beautiful with many remote areas. Mendocino County would best be described as a producer county within the framework of the cannabis industry. There are some dispensaries and local retail sales, but nowhere near the number of exports that will be going to the southern counties. So the magic question becomes how do producers get their products south within a legal system? There will be

many people in the county advocating to allow farms to transport their product within the county without any transportation licensing, but that will only lead to numerous problems especially at the state level. I cannot see how if the state requires product to be transported by a safe vehicle (a vehicle with lock boxes and cages) with proper bonding and insurance how we as a county can allow large quantities of product being transported in the trunks of ordinary non-commercially insured vehicles?

Groups like Flow Kanna are one solution for some farms to move their product through, but they can only service a small number of farms in the grand scheme of things. As an example I have had my farm registered from last year and have contacted Flow Kanna numerous times and have never even obtained a response back. I have spoken to some of their representatives in person casually that have told me they cannot take on any other farms at the moment and have a large waiting list for farms seeking to work with them. I am glad Flow Kanna is there and understand there is no way they can take on the whole load themselves and being there is a huge waiting list demonstrates the need for more distributor types in Mendocino County. It is also important to note, that if there are only a few larger distributors in the county, what happens if some of them go out of business for numerous reasons? I am truly hoping for the success of groups like Flow Kanna, but if it were to go out of business with no other feasible options for distribution, the ramifications would be severe.

I have also contacted different distributors in other counties outside of Mendocino County, and they have expressed a willingness to work with product from here, but do not have the resources to properly send vehicles up to the various parts of the county to pick-up product and if they did express they will it would be at a huge cost to the cultivator.

Most cultivators are struggling to cover the costs to complete their cultivation licenses and have not even explored obtaining a proper vehicle with commercial insurance for transporting their product legally, as well as marketing, packaging, and hiring of more employees. Just like as what happened in Nevada when it became recreationally legal there will be a bottleneck for product that would devastate the cultivators of a county like

Mendocino. *Please note* in the article included next, the numbers discussed for Nevada do not even remotely compare with what will be here in California. <http://fortune.com/2017/07/17/nevada-recreational-marijuana/>.

Logistics Solutions:

In order for Mendocino County Licensed cultivators to properly and cost effectively get products to market; they will require having local small distributors under the micro-business license to facilitate their unique needs. Just as there will be local distributors that provide product to retailers and obtain product from larger regional distributors; local distributors will need to collect product from local cultivators (who are often times in far to reach obscure areas of the county) and distribute that product to various regional distributors and some retailers in the various state consumer market zones.

My cultivation area is in the Hopland's Sanel Valley region of district 5. I know of many cultivators who have county cultivation applications applied for that told me if they had a local place that would pick-up their product with all proper liability, package, test, and work with other distributors or retailers to distribute their product they would sleep much better at night. I envision a local Sanel Valley or even District 5 distributor to facilitate this need. Other areas of the county will have their local distribution locations that follow a similar model and together they can work with large distributors within and outside the county.

This is more cost effective than cultivation sites individually pursuing retail locations and distributors in other parts of the state. It will be cheaper for those same cultivators to pay for packaging done at a location that facilitates multiple cultivators, than on their own.

Having many local distributors will provide more outlets for cultivators to eliminate the excuse and temptation to divert product. Ultimately, it will allow for a more regular flow of product leaving the cultivators through the proper chain of custody.

Zoning:

For businesses seeking individual non-cultivation licenses i.e. manufacturing or processing, the current direction and zoning charts are reasonable and are logical. One issue that quickly arises, however; is the exponential increase in property values and rents for industrial and commercially zoned properties making them not cost effective for other industries and non-cannabis businesses to exist. This goes against the general plan that creates those zoning designations to ensure there is adequate infrastructure to meet the needs of the community.

There should absolutely be cannabis businesses in the aforementioned zonings, but there should not be an overwhelming number of them consuming the limited number of such parcels in the county.

I would also like to point out Section 20.243.50 (E):

All cannabis facilities shall be located in a permanent building in conformance with the Mendocino County Building Code for a commercial or industrial building, as applicable, and shall not be located in a dwelling unit, recreational vehicle, cargo container, motor vehicle or other similar personal property.

Most of that section is logical, except there should be a reconsideration for the cargo or shipping container. Cargo containers are used for commercial uses throughout the state and within our county. They can be modified and permitted to meet any standard. Shipping containers are modified into homes and in places around New York City they are being stacked on top of each other and used to grow local vegetables with sophisticated grow light and climate control settings. They are a cost effective, safe, and quick solution for a business to get started. Either used for storage, for packaging, basic non-volatile extraction they can help a business get off the ground and eventually build a permanent building if the need arises. In the event a property is sold in the future and a different use is desired, they are easily removed. At the very least, especially in terms of the micro business, allow their use on a temporary basis before requiring a all of the cannabis start-up businesses in the county to construct

permanent structures that will take time and not be completed as their need is rapidly approaching. I would argue to allow them as long as they meet important criteria and reexamine if they should be disallowed or criteria be modified later on rather than taking the opposite approach.

Zoning Solution Ideas

In order to prevent non-cultivation license types from over occupying industrial and commercial land within Mendocino County, a robust micro-business license needs to exist. The most efficient use of land for cannabis business activities is to have as many of those activities occurring on parcels that are already engaging in cannabis related business. It would make sense for a parcel engaging in cultivation to have an additional non-volatile manufacturing, local distribution, or even retail activity as long as they meet the necessary requirements.

In some instances it is true, that if a micro-business license is allowed in zonings with cultivation sites there arises the issue of more cannabis industry business occurring in more residential type areas which will further disturb neighbors and neighborhoods as a whole. All cultivation sites will require having vehicles leaving with product and workers coming and going from such locations regardless whether they in engage in any other activity besides cultivation. This is where a use permit system can decide the actual impact on a parcel to parcel basis.

It is of great importance that cultivation sites on Rangeland be given the opportunity to obtain a Micro-business. There can be some sort of use permit review where there appears neighbors could have a significant impact, but for many Rangeland parcels there is very little impact if any. Let's take a real scenario, which is a very common one:

A 160 acre Rangeland parcel is permitted for 10k square feet for cultivation. That parcel is miles away from any home, and requires 10 miles of easement roads to access. The parcel wishes to do farm fresh rosin pressing (non-volatile) of its product with packaging and small distribution/transporting for neighboring cultivators to lower the costs for all.

They will work with building and planning to ensure they have proper structures for such uses, they will work with local road associations to contribute more funds for any perceived increase usage of the roads which is necessary for the business' vehicles, and increase security measures they already need to have in place to meet their new needs. If a usage permit review process is needed they will present a business plan discussing impacts to the proper board.

I see the previously mentioned scenario as a prime candidate for a micro business license. The reality is that a great many of Rangeland parcels do not engage in cattle or other forms of ranching nor should they. I do not want to debate the environmental impacts of ranching but they have to be much more significant than any micro-business activity. It is probably time to update some of these parcel's zonings throughout the county, but for now while drafting new ordinances a common sense approach can be adapted to overcome the outdated current zonings in the county.

Product Value:

Anyone in northern California over the last year has heard the repetitive statement and wailing of how prices for cannabis flower continuously drops. A major factor for price dropping is over supply. There are so many producers, 95% of which are and will remain illegal (there is no true accurate data on this percentage), that the market as a whole is flooded creating an artificially low supply and demand curve price point. Cultivators who have been going through the permitting process are absorbing large costs to have their cultivation locations permitted, but they are competing with illegal growers who at the moment have much lower costs and until Jan 1st 2018, can sell to the shops the same as those who have obtained or in the application process for a permit. This will obviously change after Jan 1st, but there is another issue that must be addressed in order to prevent price dumping from the permitted farms; the difficulty to get

product to market. Permitted cultivators will be at the beck and call of outrageous fees and low purchasing prices from a very limited number of distributors and will sell very low out of desperation.

A lot of the valuation of product will be created by a supply and demand curve that develops as the recreational market develops, but Mendocino County can take measures to add value to an important resource to the local economy. A stamp that says it is Mendocino grown may or may not help, but having an apparatus in place for Mendocino grown product to get to consumer markets efficiently and more importantly- cost effectively, will produce a great value for the product. It is extremely important Mendocino County does all that it can to help with keeping a strong value of its cannabis products. This will not just benefit “growers,” it will lead to more job growth, taxes and fees paid to the county, and more dollars entering into the local economy as a whole.

Labor Availability and Housing:

California’s leading crisis in the state is the housing crisis and Mendocino County is no different. There is plenty of statistics and studies available, and here is one article from the New York Times that recently explored the topic:

https://www.nytimes.com/2017/07/17/us/california-housing-crisis.html?mcu_bz=0

One section of that article that really deserves attention is:

The extreme rise in housing costs has emerged as a threat to the state’s future economy and its quality of life. It has pushed the debate over housing to the center of state and local politics, fueling a [resurgent rent control movement](#) and the growth of neighborhood “Yes in My Back Yard” organizations, battling long-established neighborhood groups and local elected officials as they demand an end to strict zoning and planning regulations.

As a cultivator and cannabusiness person my greatest difficulty is getting affordable labor. I pay more than minimum wage and willing to pay somewhere in the neighborhood of \$20 an hour or more for basic labor at the cultivation site and this does not seem to be efficient enough to attract workers. It is not that workers do not want to work for the wages, it is that they cannot afford to live within a close proximity to cultivation sites. Simple put there is not enough affordable housing and ,therefore; there are not enough affordable workers. Labor is obviously a significant cost for any business but even more of an issue when there is an extremely limited availability. This issue is more along the lines of planning, and cannot be ignored. Mendocino County has been gentrified by “green rush” people that have caused a major increase in home prices and rents in the mountains and neighborhoods of Ukiah alike. I have employees that have been searching and inquiring for months for local rental units and cannot even obtain a call back because they are rented so quickly.

Even if I wanted to create housing units at the cultivation site, it violates land agreements that state there can only be one single family home on the parcel. This issue far exceeds just the cannabis business but the entirety of the county. I read that there are many county jobs that just cannot get filled such as in our building department, park rangers to help with what is going on by Lake Mendocino, and all other businesses throughout the county. I see help wanted signs everywhere and high population of homeless people.

The county needs to address this housing crisis now and continuously. The cannabis legislation needs to be completed and then subject to periodic reviews and be done with. There are structures on properties across the county that need to be condemned and somehow made available through either eminent domain or some other mechanism. I encourage any of you to stop in the town of Hopland, and take a look around. There are beautiful new restaurants and shops and then empty lots, buildings that need to be torn down, and under further investigation small inefficient shanties and shacks behind other buildings. A coordinated

plan with landowners, developers, and the county can create numerous affordable housing units in just that one area. Such efforts take time therefore need to begin as soon as possible.

Conclusion

In conclusion, with state licenses and regulations taking effect in a few months Mendocino County needs to adapt a Micro-Business License to facilitate the upcoming requirements for cannabis products distribution and ensure Mendocino County Cultivators are a part of California's supply-chain. The Micro Business license is even more important than focusing on the individual license types, because those entities do not currently exist and if they do they are completely illegal and may not meet the guidelines set forth. Existing cultivators can do small improvements such as obtaining a vehicle and some storage containers to facilitate the county's supply-chain needs in time for the state regulations start date. That state has created the Micro Business license for cultivators with 10k square feet of canopy or less with places like Mendocino County in mind. We need to truly embrace that gift from the state and utilize it to its maximum potential.

The county's cultivation permit is a work in progress and perhaps there are some changes that can and should be made, but there is an ordinance in place, and we cannot continue to waste the numerous hours of county staff on it. We must move forward to working on making sure those cultivators who do get licensed have the ability to compete in the state's cannabis market. Mendocino County as a whole needs to be concerned with assuring its valuable cannabis is entering the marketplace unhindered as much as possible. If we do not move forward, we will be falling behind rapidly. There are people in the county willing and able to help our cannabis industry succeed and if we work together progressively it can and will.

Thank you so very much for reviewing my ideas. I truly hope that they will help guide you and perhaps steer the cannabis regulation freight train into the right direction. If there is any assistance I can provide please do not hesitate to contact me through either email or by phone.

Thank you,

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