



June 7, 2020

Mendocino County Board of Supervisors
501 Low Gap Road
Ukiah, CA 95482

Re: Agenda Item 6b) Discussion and Possible Action Including Direction to Staff Regarding the Potential Re-direction of the Cannabis Cultivation Program (Sponsor: Supervisor McCowen)

Dear Supervisors,

For decades, cannabis was one of Mendocino's most economically valuable resources. One for which they had little competition. But now, in the world of legal cannabis, Mendocino County has a problem. The County is competing with other cities and counties to attract businesses that can create jobs and stimulate tax revenue in the wake of a deepening recession. The problem is that many cities and counties that had previously eschewed legal cannabis are giving it a second look. Those localities that opt-in recognize that to attract business their cannabis ordinance must be more attractive than others, and paradoxically, those other localities seem to understand the business of cannabis better than Mendocino.

Here in Mendocino, we are blessed with a strong involvement in the legal industry by legacy cultivators. For many reasons, the County has had to limit cultivators' size to 10,000 SF. That means to cover costs the only business model that can work is to produce top-shelf cannabis. These legacy cultivators must have a path forward to secure their Annual licenses and continue their business operations. Yet, while the County certainly produces the lion's share of quality product, craft cannabis occupies a small segment of the overall market. Furthermore, as the state heads into a recession, top-shelf cannabis will shrink as a percent of the overall market as consumers pivot to "value products" to stretch their dollars. **We urge the County to reimagine its cannabis program to serve both the legacy cultivator's needs while also diversifying the program so Mendocino businesses may serve consumers through this recession and beyond.** Now is the time for the county to create a robust and well-rounded cannabis economy.

This diversification cannot wait. At this moment in time, cannabis in California is a cutthroat business. Margins are tight if there are any margins at all. Over the past 10 months leading companies in the industry have gone through multiple rounds of layoffs. Despite the outcry for relief the state hasn't loosened regulations or offered tax reductions, and as a result every one of the thousands of cannabis businesses are looking for ways to win customers and take market share.

In California, legal cannabis sales are at a plateau of about \$250M - \$280M per month statewide. Sales are distributed across a number of different product categories of which flower (buds) are only about \$85M of total sales. Of that \$85M there are high-quality flower products, mid-level, and lower tier "value" products. BDS Analytics identifies mid and low tier products as occupying 70% of all flower sales, with high quality, top shelf flowers only being 30% of flower sales. Prerolls, which generally are filled with lower value flowers, account for about \$25M of total monthly sales. The rest of the sales in California's cannabis market are "manufactured products". These are the oils, the edibles, vapes,



tinctures, topicals, sublinguals, etc. and represent 55% of total monthly sales or more. These products have slowly but surely grown in market share over the past 2+ years and are expected to grow in the future.

Currently, Mendocino is choosing only to participate in a slice of the market representing less than 10% of overall sales¹. At the same time, companies such as Flow Kana wants to source even more cannabis from the county, in a variety of forms, in order to expand and diversify the value creation within the county. Despite significant effort we now see that with the current cultivation ordinance that is impossible. However, just next door in Lake County, cannabis cultivation is becoming more attractive to those seeking to produce cannabis outside of the craft market.

Right now, Lake County is looking to be the new premiere location for growth-minded cannabis cultivators. As a result of new business-friendly amendments to its cultivation ordinance there are hundreds of acres of cannabis cultivation applications pending. With a similar climate and lifestyle to Mendocino, many legal cannabis businesses are choosing to invest in Lake County instead. To be clear, we are a Mendocino cannabis business. With over 100 employees reporting to work at Flow Kana facilities in Mendocino County, we know this is our home. But we too must adapt to regulations, market directions and environmental influences such as the economy.

Like any other business, Flow Kana must choose the path that ensures our employees' futures and the financial success of the company. **As we move to diversify our product portfolio, and compete in the other 90% of the market, we have supply chain needs that cannot be met within Mendocino County.** To supply our new manufactured products line, we need access to vast amounts of value-priced cannabis known as biomass. The economics of growing biomass on 10,000 SF are untenable. And, while we would prefer to meet this need in Mendocino County, we cannot under the current ordinance.

We very much want to bring the jobs and tax revenue that come with biomass production to Mendocino County in 2021. **To do so, we support streamlining the process for approving cannabis cultivation in the county by focusing on land use. We also support the creation of a pathway for innovative cannabis projects to be considered on a case by case basis should they be nonconforming, especially if it involves turning over other crops in order to grow cannabis on a premise already approved for agricultural activity.** A similar process already exists in the county for novel development projects of other types. In addition to directing staff to create new ordinance language in line with Supervisor McCowen's suggestions and developing a process for the approval of novel projects on a case by case basis, we encourage the county to keep the following in mind as they consider a path forward:

1. The legal cannabis supply chain is a part of the business landscape: Opening up cultivation is not just about attracting those who grow cannabis to this renowned region, it's about attracting other elements of the supply chain like manufacturing, which provide stable, well paid jobs.
2. Analogous industries can provide wisdom: In the wine industry there are a variety of products, business models and components of the supply chain. Boutique cultivation and large fields of table wine grapes can exist under the same label. The most successful regions in California

¹ 30% of \$85M flower market is \$25.5M. $\$25.5M / \text{estimated } \$265M \text{ monthly sales} = \%0.096$



attract processing, testing, distribution and retail with varying business models to create a more sustainable and robust local economy.

3. The Equity Program creates a pathway for win-win outcomes: Mendocino County was awarded over \$2M in equity funding from the state of CA that they must now administer. If they do not use the money, they will lose it and likely not get funded at this level again next year. One of the main activities listed in the equity program is supporting farmers who need to move in order to expand/cultivate and who need support with licensing and compliance. A pathway for novel cannabis projects can help this program's success. For example, the pairing of farmers in need of assistance with those who want to expand beyond 1 acre to support improved outcomes for qualifying social equity applicants.

This moment in time is critical to determine how this County will weather the recession and create the infrastructure for an economically beneficial cannabis program for years to come. Haste is needed to streamline the way cultivation licenses are provided so that new cultivation sites can be planted in March of 2021. If Mendocino misses the window, investment dollars, jobs, and tax revenue will accrue in areas that are more hospitable to business. We therefore support a streamlined process for the licensing of cannabis cultivation in Mendocino County.

Thank you for your consideration of our comments.

Michael Wheeler

VP of Policy Initiatives
Flow Kana