

To the Honorable Board of Supervisors:

For the last five years, I have legally with a license (provisional state license) cultivated 10k sq ft of canopy of cannabis and have an opportunity to expand my current operations to another acre to three acres if the proposed phase 3 legislation is approved. Being a cultivator in Mendocino County is extremely difficult and we are in a constant state of anxiety for reasons such as: the unknown of what the price of our product will be every year, if our county will resolve our CEQA issue, will we even be allowed to cultivate next year, will our uninsurable farm and life savings go up in smoke this year, will we be able to keep our workforce, will we be able to find workers for this season, will we be robbed by rippers or distributors, mites, mold, ect... Anxiety often leads to fear and now with the current Phase 3 proposed legislation in particular the 10% canopy of total parcel acreage in certain zonings it seems to become another fear to add to the list. Most will read my introduction sentence and rightfully so will say that I am partial toward allowing the 10% expansion. Some people who disagree strongly probably stopped reading after that sentence or are still reading this to see how they can pick every point I speak about apart, and that is their right and I may disagree with them but still respect them and wish no harm to them. We can disagree and debate and do not have to be divisive because regardless of the outcome we need to work together on a great many issues to help the future of our livelihoods and cannabis industry. I implore all to please have an open mind to all arguments. Closed mindsets only lead to a greater separation.

Competitive Fear

One obvious fear of expansion is that larger more capitalized cultivations will create an environment where current smaller operations cannot compete. I have this fear myself, and it was the main motivation for me spending countless hours over the last year working on a way to have the opportunity to cultivate at a much larger scale. My fear isn't proposed larger Mendocino County cultivations, but all of the current larger licensed cultivation sites in the state of California.

The last couple of years of sales through distribution have started to demonstrate certain trends and patterns. The larger cultivators with high volumes of product receive more attention, are more consistent, and can more easily absorb lower pricing. The wholesale pricing has fluctuated incredibly percentage wise and at times remains at a price range that is barely if even profitable to a low volume producer. Hopefully, in time pricing will stabilize more, but as any other market operates there will be highs and lows. One thing that is for sure the stable price range will be at a point that is determined by the high volume producers who through scales of economy have much lower costs per unit and will make good money on smaller margins due to volume. That price range may indeed be a number in red for low volume producers. From discussions with distributors and reviewing my own invoices and expenses this is just about happening already. Some Mendocino licensed cultivators out of greed, but mainly out of survival cannot sell all of their product through the Metrc legal supply chain. With higher costs per unit, endless bureaucratic fees, consultants, environmental fees, taxes, and very limited

production it is extremely difficult to be economically sustainable at 10k sq ft and unfortunately maybe not even be obtainable at 1 acre per parcel in the near future or currently.

The Flow of Capital

Another fear is that larger more capitalized cultivations are funded by out of area investors that will out compete local legacy cultivators through better funding and siphon money and resources from the county. The larger cultivators will purchase inputs in bulk from producers and suppliers outside of Mendocino County, rather than from small locally owned suppliers causing them to close.

I moved to Mendocino County in 2014 to purchase my first property here and brought my life savings as well as investor money in the multiples of millions of dollars to Mendocino county, and to date not one dollar in profit has been taken out in over seven years. I have continued to reinvest into better production when there was profit, but mostly continue to utilize capital that has originated from outside of Mendocino County. I recently became part owner of a 38 acre vineyard to diversify and purchase inputs from the same local suppliers the previous owner used and I use for cannabis cultivation activities. Even with 38 acres of vines, it is not large enough to purchase products directly from manufacturers outside the county and must still go through local suppliers and distributors.

It should be noted that since I moved here in 2014, some in the area welcomed me with open arms and some have not. I have had my highs and lows in life but generally consider myself an extremely fortunate person and can never compare discrimination that I incur (for the only time in my life) from locals in Mendocino County to what many other groups experience in much worse forms, but it still exists. Recent arguments against wanting outside the county groups to come here to invest is and always will be a form of discrimination. Spending a small fortune, employing local people, and having a spouse that is a teacher in Ukiah (a school district that battles with teacher retainment) is far from exploitation.

Poverty and Housing

According to the U.S Census Bureau, Mendocino County's poverty rate in July, 2019 was at 14% and according to DataUSA is now estimated to have a current poverty rate of 18.5%. Ukiah Unified School district had free lunch eligibility in the 90%+ before making it 100% in recent years. With poverty rates increasing county wide, it is difficult to argue current economic policies are effective. I listened to recent Board of Supervisor and Planning meetings where a consistent theme for a lack of ability to attract professionals to this area. The Sheriff said that there are 12 openings that they just cannot fill and that if we are even able to build the mental health facility voters voted for in 2016 we may not be able to staff it. Housing costs far exceed earnings professionals can make in this area and new development is not meeting the demand this area needs to attract such professionals.

The entire nation is experiencing a housing supply shortage, but Mendocino County has a more unique experience that many of its residential or near residential properties have been over inflated in pricing due to the prospect cultivating cannabis legally or illegally. Homes that do not even have proper building permits sell for prices that are much higher than they should as cash deals (because mortgages are unattainable for unpermitted homes). The argument is made that larger more funded cultivation sites of multiple acres will further this trend of increasing prices. That is true, but for larger multi-million dollar properties which will be the only locations where such cultivation would be approvable within proposed Phase 3 legislation. Being ever watchful of such real estate listings, there is next to no available inventory currently of such properties. Do not take my word for it, ask local realtors.

It is unfortunate, but a harsh reality that a good many of phase 1 or “legacy” cultivators will not be able to obtain a finalized license or if they do as in every other industry that has existed in American history a good percentage will not be able to compete or fail due to many economic causes. According to data from the Bureau of Labor Statistics, as reported by Fundera, approximately 20 percent of small businesses fail within the first year. By the end of the second year, 30 percent of businesses will have failed. By the end of the fifth year, about half will have failed. What will be the value of such properties and locations after they fail obtaining a license or their businesses fail? This is a real threat and something that could devastate this area and families. If their business fails how will they have income to support their families and homes? Perhaps, being able to obtain a job at another location where multiple acres of cultivation is taking place as a field worker, supervisor, and who knows maybe we will see the emergence of cannabis cultivation management companies as exist currently for vineyard management. If we move ahead with capping the size of cultivation for AG appropriate locations it will dramatically reduce the opportunities for such employment because besides having less cultivation per parcel many investors or current land owners may not even be attracted to taking the risk of investment with such a limited canopy.

Larger cannabis cultivation sites will not solve the housing or poverty issue, but they may be a step in a positive direction if well funded and planned properly. As the county continues to debate this issue, other plans to increase development such as bringing broadband internet to the county have been put on a back burner while we fall deeper and deeper into poverty. Increasing the canopy limitations now prevents having to revisit this notion over and over and remaining constantly behind the rest of the states allowances. Keep in mind if this proposed Phase 3 legislation is approved at some point this summer most if not all these grows will not even begin operations until 2022/2023 which waiting until then to revisit increasing limitations will mean they will not open those facilities until 2025 or beyond. Continuing to fall further and further behind.

Water Use

With a major drought season on our doorstep the issue of water use emerges as an even more important issue as ever. Allowing larger multiple acre grows of cannabis would appear to only add to the problem of water availability, but would it? In order to obtain a Phase

3 Major Use permit to cultivate multiple acres of cannabis on a parcel will require proper water rights and individual water availability studies. It is for this reason I cannot see 100 acre grows on a property unless a vineyard owner decided to remove all of their vines and replace them with cannabis. There are not many current large agricultural parcels that are not using the majority if not all the water they have a state water right to use now in some fashion. If a vineyard has a 20 ft acre reservoir for water and uses close to most of it every season if it is desired to cultivate cannabis there it will have to stop watering or convert acres of vineyard in order to do so and have the same net water usage it has always used. Some locations may rely on wells that will syphon water from the aquifers, but this is why individual water availability studies will be required to prove that this is not the case. A use permitting process allows for such reviews and community input to prevent water usage abuse.

While on the topic of natural resources, the argument is presented that these large multiple acre grows will devastate the environment more than current or less than 1 acre grows will or do. There are some “legacy” cultivation sites that are in the TPZ and other zonings that are in the mountains and forest areas just because they demonstrated proof of prior cultivation before 2016 are more impactful to wildlife and the environment than a parcel that is a current AG parcel converting growing some agricultural crop to growing cannabis. I know this because I own a cultivation site that is RL-160 in the mountains that meets all set-backs and is hidden from a neighborhood but if I were to increase even another few thousand sq ft of canopy would start to impact the environment much more than converting acres of grape vines into cannabis gardens on the valley floor.

The Mendocino County Cannabis Industry as a Whole

Although the Phase 3 legislation discussed here pertains to cultivation it greatly impacts the county cannabis cultivation industry as a whole. The input from local retailers, distributors, processors, and manufacturers is imperative in this discussion. I do not speak to every single one of them, but do speak to a lot of them and the ones I speak to are in basic agreement that the current production levels (or the local cultivator’s need for higher pricing per unit) cannot support their business models. Waiting for the growth of markets, “Federalization” for cannabis is not the time to allow larger cultivation sites, because if trends in other industries are applied small low volume producers will be even less desirable for national and international distributors. Mendocino County cannot control the cannabis economy and does not have a magical bubble around it to protect it from the statewide supply and demand curve.

The last few years in the legal market has been negatively impacted by the large black market, but with or without increased enforcement that will begin to fade. As more and more states large and small move toward adult use of cannabis the need for black market cannabis originating from California will diminish nationwide. If state and local taxes become more reasonable as some currently proposed legislation in California is calling for, then the demand at California retailers will increase. This is why it is imperative as a county we are more forward thinking and listening to the current state of affairs from industry participants.

Cooperation

The current debate on the increase of canopy for 10% of total parcel acreage is creating a division between small legacy growers wishing the limit stays an acre or less per parcel and those who support the proposal. We can disagree and debate these issues, but ultimately all cannabis cultivators need to come together, cooperate, and fight on the vast many issues that face the industry. Rather than attempting to control an uncontrollable market with a limitation, let us work toward creating incentives and programs that can increase the likelihood of success for all. Lower tax rates per unit county and statewide for lower tier licensed holders to allow them better and necessary margins for survivability should be implemented. There needs to be incentive programs to the larger volume license holders to engage in employee sharing, supply sharing, and other resource sharing programs to lower production costs for smaller tiered licenses. Small farmer markets where smaller tiered license holders can participate in direct sales to consumers to sell 1/8ths and ounces of products rather than only wholesale 50 lbs lots are essential to helping them increase much needed profitability. Developing a logical tree removal program in this county rather than a black rule of death for removing one tree. I am not calling for clear-cutting forests or removing massive amounts of trees, but if a few trees being removed will be the difference between a small/specialty/cottage license holder from being able to expand some to become profitable it seems cruel to be so overly restrictive.

The previously mentioned concepts are just some ideas that can cooperatively be explored to help as many as possible become successful in the cannabis industry. Not all cultivators will be successful, but for the community as a whole having as much success as possible is best for the county.

Conclusion

In this letter, I have discussed my opinion from my experience and point of view. I believe it is necessary to move toward a growth in canopy that resembles what other larger producers are currently doing in the state. I feel we need to put legislation that is not only good for today or the next year or two, but for some years to come to prevent from being continuously behind the trend and spending countless county hours and tax payer dollars revisiting this over and over. I believe the influx of capital to this county may be the stimulus it needs to stop the increasing trend of poverty and lack of professional residents. The Phase 3 legislation with a use permit review will provide proper oversight and safeguards toward resource exploitation of communities. Other non-cultivation industry participants are on the frontlines of the state cannabis economy and are supporting this proposal otherwise, as one distributor described to me, "there will be a mass extinction event, of legal Mendocino County cultivators." Ultimately, I strongly believe the cannabis cultivation community needs to unite as a whole to push for better laws and taxation to help all levels of cultivation succeed and move away from what seems like punitive rules and fees while attempting to make a living in the industry. To all those who read this through its entirety I thank you, and even if we disagree we can and I will do so respectfully and still work toward working together to keep evolving toward regulations and an economical environment that is fruitatious for as many as possible.

Thank you,

Steven Amato Jr.