

MEDICAL CANNABIS: A CASE STUDY

City staff had the opportunity recently to sit down with the owner of a licensed local medical cannabis retailer (dispensary). During this conversation we discussed the ten-year history of the business and how it has adapted to changes in the cannabis industry, its relationships with law enforcement and regulatory agencies such as the state Board of Equalization and the planning department of the jurisdiction in which it is located. Following are significant take-aways:

1. This business has thirty full- and part-time employees who receive salaries, benefits, workers' compensation coverage (via State Compensation Insurance Fund, at 5x rate), health insurance coverage, and 401(k) retirement options – many of the employees have worked at this business since it started.
2. Employees are required to be backgrounded by law enforcement, as required by the jurisdiction's regulatory ordinance.
3. Although cannabis businesses can obtain bank accounts, it is more costly to do so because of stringent federal regulations designed to prohibit money-laundering and tax fraud – a cannabis bank account costs ten to twenty percent more than a typical business account.
4. As a result of the costs of banking, employees are paid in cash, but the business otherwise complies with state and federal laws regarding employer tax returns and payment of employee taxes – employees receive annual W-2s. The business pays approximately \$500,000 annually in employment taxes.
5. The business has a legitimate but unusual corporate identity and files state and federal business tax returns – the business grosses approximately \$10 million annually and pays approximately \$1 million annually in state and local taxes, including state sales taxes.
6. The business owns its site and would like to expand – there are 500-1,000 walk-in customers every day.
7. The business chooses not to advertise its location so there is no external signage on the building – there is no ordinance or regulatory prohibition on signage.
8. The business has external and internal video surveillance, as required by the regulatory agency, but there are no security guards. The business has had no issues with crime during its ten years in operation. (Some jurisdictions require a minimum of two armed licensed security officers on site anytime the business is open.)
9. The business does not want to disclose its supplier of cannabis. The supplier could be an outside cultivator or an indoor cultivator or even a distributor but the business declines to say which it is. The business understands that state regulations now being developed would require all suppliers in the cannabis chain would be public and licensed at the state level and local level (if such operations were permitted by the local jurisdiction).

10. The business has its supplier perform the blending process to determine exactly what product is going to be sold – the blending does not take place on-site.
11. All products are lab-tested – state regulations being developed will require testing by state-certified laboratories.
12. The business can easily expand to offer adult recreational cannabis products in 2018 – primarily because the state will have the same standards for medical cannabis and adult use recreational cannabis.
13. The business does not have a delivery component but offers the opinion that fifty or sixty businesses are currently making medical cannabis deliveries in Hayward.
14. The business has had no federal intrusion (e.g., the U.S. Drug Enforcement Agency) since 2008.
15. The business has a strict inventory control system (‘seed to sale’) – this will be required by the state for both medical cannabis and adult use cannabis by January, 2018.
16. The business currently sells only smokable products, not edibles or topicals.
17. According to the business, adult use cannabis products will quickly dominant the market – and the only difference is whether medical cannabis will be taxed and the age restriction on adult use.
18. Indoor cultivation can generate about six crops a year, while outdoor cultivation generates one crop a year.
19. Approximately 80 percent of medical cannabis card holders do not have legitimate medical conditions.