



## Council Agenda Report

From: Warren Frace, Community Development Director

Subject: City Cannabis Regulations Policy Review

CEQA Determination: The City finds that this action is not a project under the California Environmental Quality Act pursuant to State Guidelines Section State CEQA Guidelines, §§ 15060, subd. (c)(2)-(3), 15378.

Date: August 19, 2025

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### Facts

1. On November 5, 1996, California voters passed Proposition 215, also known as the Compassionate Use Act. This landmark initiative permitted the medical use of cannabis, making California the first state to legalize cannabis for medical purposes.
2. On November 8, 2016, voters approved Proposition 64, the Control, Regulate, and Tax Adult Use of Marijuana Act (AUMA). This measure legalized the possession and recreational use of cannabis for adults aged 21 and over. While most personal-use provisions took effect immediately on November 9, 2016, the commercial licensing aspects became effective January 1, 2018.
3. Following the passage of Proposition 64, the City of Paso Robles adopted Ordinance No. 1036 on November 15, 2016. This ordinance regulated personal, medical, and commercial cannabis uses within city limits. At the time, the only commercial cannabis activity permitted was the delivery of medical cannabis in the Riverside Corridor (RSC) and Commercial/Light Industry (C-3) zoning districts, contingent on securing a conditional use permit. All other commercial cannabis businesses, including storefront dispensaries, remained prohibited.
4. On June 27, 2017, Governor Jerry Brown signed Senate Bill 94, merging previous medical and recreational cannabis regulations into a single framework known as the Medicinal and Adult-Use Cannabis Regulation and Safety Act (MAUCRSA). This legislation repealed the earlier Medical Cannabis Regulation and Safety Act (MCRSA) and consolidated key provisions under AUMA, creating a unified regulatory structure codified in the California Business and Professions Code.
5. A central tenet of MAUCRSA is the preservation of local control. Under Section 26200 of the Business and Professions Code, cities and counties maintain the authority to prohibit or regulate commercial cannabis businesses within their jurisdictions. The state cannot approve a cannabis business license if it conflicts with local ordinances. However, jurisdictions are prohibited from banning the delivery of cannabis from licensed businesses located outside their boundaries.
6. The regulatory structure established by MAUCRSA governs every aspect of the legal cannabis supply chain—including cultivation, manufacturing, testing, distribution, and retail—whether for medicinal or adult use. Initially, regulation was distributed among multiple state agencies, but in 2021, enforcement and oversight were consolidated under a single agency: the California Department of Cannabis Control (DCC).
7. On November 6, 2018, Paso Robles voters approved Measure I-18, which enacted Ordinance No. 1066 N.S. to implement a general tax on cannabis-related activities. This ordinance added Chapter 3.22 to

the Paso Robles Municipal Code and established the maximum tax rates the City could impose on cannabis businesses operating within city limits.

8. To implement the cannabis tax authorized by Measure I-18, the City Council amended the municipal code on October 20, 2020. The amendment set the tax rate for cannabis delivery businesses at 6%, which is below the voter-authorized maximum of 10%.
9. In 2021, the State of California established the Department of Cannabis Control (DCC) to oversee the regulated cannabis market. The DCC is responsible for licensing businesses, ensuring regulatory compliance, promoting public health and safety, and reducing illegal cannabis activity through education, enforcement, and support for local jurisdictions.
10. In February and April 2022, the Paso Robles City Council identified the development of a cannabis governance framework as one of its strategic goals for fiscal years 2022–23 and 2023–24. This marked the beginning of a more comprehensive review of local cannabis regulations.
11. In support of these goals, City staff engaged HdL Companies, a consulting firm with expertise in cannabis policy, to assist in the development of a governance framework. HdL provided an overview of the evolving cannabis industry and shared best practices to help inform policy development.
12. On July 19, 2022, following a presentation from staff and HdL, the City Council directed staff to pursue two key actions: (a) begin developing a comprehensive cannabis governance framework, including provisions for commercial retail cannabis sales; and (b) prepare an expedited ordinance specifically allowing recreational (adult use) cannabis delivery services.
13. To facilitate public participation, the City hosted a public forum on cannabis policy on August 18, 2022. During the event, residents had the opportunity to provide input, and HdL gave a presentation on the state of the cannabis industry and local regulatory options.
14. Complementing the public forum, the City also conducted a community survey between August 9 and September 5, 2022. The survey gathered public feedback on potential cannabis policies and the role of cannabis businesses in the community.
15. On September 13, 2022, the Planning Commission held a public hearing to review the proposed ordinance for adult use cannabis delivery. In a 3-2-2 vote, the Commission recommended approval of the ordinance to the City Council. However, some commissioners voiced concern about separating delivery services from the broader cannabis governance framework and preferred a more comprehensive approach.
16. On October 4, 2022, the City Council held a public hearing and introduced by title only an ordinance to repeal and replace Chapter 21.33 of the Zoning Code. The proposed changes would allow adult use cannabis delivery services in the RSC and C-3 zoning districts and included other clarifying updates. The ordinance was deemed exempt from review under the California Environmental Quality Act (CEQA).
17. On October 18, 2022, City Council formally adopted Ordinance No. 1126, repealing Chapter 21.33 and created Chapter 21.60 of the Zoning Code, explicitly permitting adult use and medical cannabis delivery services from both within and outside the City, provided businesses are licensed and meet operational requirements. The ordinance also updated terminology, formally including "recreational" as part of the definition for commercial cannabis activity.
18. As part of Ordinance 1126, a one-year sunset provision was included allowing existing medical cannabis delivery businesses to temporarily provide adult use delivery services. This provision expired in 2023, and as a result, recreational cannabis delivery from locally based businesses is no longer permitted under current regulations.
19. Also on October 18, 2022, the City Council approved Resolution No. 22-144, establishing a limit of three permits for commercial cannabis delivery services operating within city limits. The three

businesses temporarily authorized under the ordinance were recognized as occupying the full allotment of available permits.

20. In August 2024, the City Council directed staff to revisit the City’s cannabis regulations. Staff were asked to return at a future meeting to provide an update and discuss the current state of cannabis policy, potentially leading to further revisions or clarifications.
21. Throughout this process, it is important to note that terminology surrounding cannabis regulation can vary. While state law refers to non-medical cannabis as “adult use,” it is often also called “recreational” or “commercial.” For clarity and consistency, this report uses the term adult use cannabis in alignment with state terminology.

### **Community Outreach**

Past outreach included a public forum held on August 18, 2022, and a community survey open between August 9 and September 5, 2022. No recent outreach has occurred on this topic since then. To ensure compliance with state equity mandates and community engagement best practices, staff recommends conducting updated outreach, including obtaining targeted input from equity-impacted communities, before advancing any expansion of commercial cannabis uses, such as storefront retail.

### **Options**

1. Take no action, existing medical cannabis delivery only regulations remain in place;
2. Direct staff to return with an updated cannabis ordinance to allow existing medical cannabis delivery business to deliver adult use cannabis;
3. Direct staff to return with a framework and community outreach plan in furtherance of potentially authorizing cannabis retail storefronts within the City; or
4. Provide alternative direction to staff.

### **Analysis and Conclusions**

#### *Cannabis Policy and Governance History*

The City’s cannabis policy has evolved cautiously in response to legal developments, public input, and Council direction. Based on the most recent City Council request, this item seeks direction as to whether the City should comprehensively reexamine the City’s regulatory framework and determine whether further expansion—such as storefront retail sales—aligns with community goals, economic development strategies, and public safety priorities.

Since the passage of Proposition 64 in 2016, which legalized adult-use cannabis in California, the City of Paso Robles has taken a measured approach to cannabis regulation. 62% of Paso Robles voters supported Proposition 64, exceeding countywide and statewide support levels. Initially, the City restricted all commercial cannabis activities except for medical cannabis delivery, which was permitted in specific zoning districts (Riverside Corridor and C-3) under a conditional use permit. Over time, as the State consolidated cannabis regulations under the Medicinal and Adult-Use Cannabis Regulation and Safety Act (MAUCRSA), Paso Robles maintained local control while gradually updating its ordinances in response to voter actions and evolving state law. State law limits cannabis sales to medicinal patients age 18 or older with a physician’s recommendation. Retailers must verify the age of their customers by checking their ID. Adult-use sales are limited to customers age 21 and older.

In 2018, City voters approved Measure I-18, establishing a general tax on cannabis businesses. The cannabis business tax rates in the City of Paso Robles are structured as follows: cultivation businesses are taxed at a rate of \$20 per square foot of space used for cultivation activities; delivery businesses are taxed at six cents per dollar of gross receipts; manufacturing, testing, and distribution businesses are taxed at

fifteen cents per dollar of gross receipts; and adult use cannabis retail businesses are taxed at a rate of ten cents per dollar of gross receipts.

Since then, the City has continued to evaluate broader cannabis governance through public forums, community surveys, and ongoing Council discussions. Notably, in July 2022, the City Council directed staff to explore the development of a broader cannabis framework, including adult use cannabis retail sales.

The City Council later adopted Ordinance No. 1126 (October 2022), which authorized temporary adult use cannabis delivery services in designated zoning districts and clarified definitions in the zoning code. Cannabis delivery businesses are only allowed within the C3 and Riverside Corridor zones (see attached map). The ordinance allows for the temporary authorization for adult use cannabis delivery, which terminated 12 months after the ordinance's effective date of adoption, which was November 17, 2022. Concurrently, Resolution 22-144 capped the number of delivery permits at three—corresponding with the three companies temporarily operating at that time. In August 2024, Council reaffirmed interest in reviewing the City's current cannabis regulations and exploring possible next steps. This review should include 2025 state law updates, such as AB 1332 allowing microbusiness medicinal shipments (prohibiting local bans on such) and AB 1775 enabling cannabis smoking lounges, to ensure alignment.

#### *Future Policy Considerations*

Staff is not recommending the issuance of any new or expanded permits as part of this discussion item. Should the City Council determine that there is a desire to explore allowing retail cannabis storefronts, staff is recommending that a framework be established that limits the total licenses for adult use cannabis storefronts and establishes a process for vetting and licensing of potential operators.

Key areas of focus should the discussion move forward, include but are not limited to:

- Allowable business types (retail, cultivation, manufacturing, etc.)
- Medicinal vs. recreational
- Numeric License caps
- Licensing process and vetting requirements (merit, lottery, etc.)
- Zoning requirements
- Land Use Permitting process
- Buffer requirements
- Security standards
- Operating standards
- Community engagement

Neighboring jurisdictions such as Morro Bay, Grover Beach and San Luis Obispo have implemented cannabis programs, including adult use retail storefronts. San Luis Obispo County, which covers areas like Templeton, has limited cannabis uses to non-retail storefront types of operations. These jurisdictions provide comparative models for evaluating potential impacts and benefits. Additionally, the City does not regulate adult use delivery of cannabis from delivery businesses located outside the City limits that deliver into the City. These businesses are required to obtain a City of Paso Robles business license; however, they are subject to operational regulations from the jurisdiction in which their place of business is located and the State Department of Cannabis Control.

### *City Council Options and Next Steps*

If the City Council wishes to move forward with Option 2, staff will return with an amendment to Chapter 21.60 of the Paso Robles Municipal Code and corresponding documents to allow the three existing medical cannabis delivery businesses to deliver adult use cannabis on a permanent basis. Under this option, the number of licenses issued within the City for delivery services is not proposed to change, nor are the locations in which they are authorized to operate. In this option, only a change to the type of cannabis to be delivered from the three existing businesses would be authorized. This option would place existing local businesses on a level playing field with providers which are located outside of the City, but delivering adult use cannabis within the City limits (as allowed by state law).

If the City Council wishes to move forward with Option 3, or any alternative that includes consideration of adult use/retail cannabis storefronts, staff intends to contract with HdL Companies, a firm with extensive experience in cannabis policy development. HdL will assist in crafting a governance framework, identifying best practices, and providing guidance for moving the discussion forward in a structured and informed manner. The City previously contracted with HdL in 2022 when the Council was exploring this topic. If this option is selected, staff will work with HdL to return to the City Council with a comprehensive package of information in furtherance of potentially authorizing cannabis retail storefronts within the City. If the City Council wishes to advance the development of a comprehensive cannabis governance framework, it is anticipated that the process will take approximately 8 to 12 months before the City is ready to accept applications for retail or other license types. This timeline accounts for several critical steps, including staff and HdL Companies preparing detailed briefings and reports for City Council review, the Council providing direction on key policy decisions highlighted in this staff report, conducting community engagement to gather public input and feedback, drafting and considering new ordinances, and developing application guidelines and supporting documents. Additionally, the timeline includes addressing miscellaneous administrative, legal, and procedural tasks necessary to ensure a thorough and effective implementation of the framework. Alternatively, the Council may choose to direct the City Manager to include a discussion on cannabis regulations as part of the Fiscal Year 2026-27 goal-setting process.

### **Fiscal Impact**

Over the past four years, the City has received approximately \$46,000 annually in cannabis revenues from the cannabis delivery companies operating in the City. Below is a cannabis tax revenue history for the City along with neighboring jurisdictions:

	FYE 2021	FYE 2022	FYE 2023	FYE 2024	FYE 2025*
Paso Robles	5,860	16,600	30,297	66,647	70,261
San Luis Obispo	-	998,875	1,127,744	1,116,495	1,450,000
Grover Beach	2,424,914	1,515,590	1,198,037	1,066,489	1,224,000
Morro Bay	220,000	512,944	502,149	469,133	448,678

\* estimated/budgeted

Revenue projections from 2022 suggest that allowing cannabis retail activity in Paso Robles could generate between \$600,000 and \$920,000 annually in combined cannabis and local sales tax revenue, depending on the tax rate imposed. However, with California’s statewide excise tax plus sales and local sales taxes, can amount to nearly 30% of the retail price.

The City of Grover Beach’s Budget Message for fiscal year 2023-24 states, “there are continued near term fiscal uncertainties for the City to monitor...Uncertainties also include future revenues in the cannabis

industry given the evolving nature of the industry, the continued extent of an untaxed and unpermitted illicit market, and additional competition with cannabis businesses in nearby cities such as San Luis Obispo.” Needless-to-say, these projections will need to be updated to provide a basis for further fiscal analysis as part of any future policy discussion.

The fiscal impact of authorizing broader regulated cannabis activity within the City is highly speculative based on several variables. Variables include, but are not limited to:

- The number of licenses issued for commercial delivery services and/or retail storefronts;
- The payment of required cannabis and sales tax pursuant to state law and Measure-I 18;
- The market fluctuations within the industry, including price of product, volume of product sold, etc.
- The cumulative effective tax rate (state + local) as it relates to purchasing behavior
- Assumptions that gross receipts are accurately reported for taxing purposes, given the predominately all-cash nature of the cannabis business as a result of federal banking regulations;
- Broader economic trends;
- Costs associated with the application processing, permitting, inspections, and other aspects of the local regulatory process not recouped through fees for service; and
- The actual cost to provide non-administrative services to any cannabis business, including police services which may “offset” cannabis specific revenues.

### **Recommendation (Option 2)**

Direct staff to return to the City Council with an updated cannabis ordinance to allow existing medical cannabis delivery business to deliver adult use cannabis.

### **Attachments**

1. Ordinance 1126 (Chapter 21.60 – Cannabis)
2. Ordinance 1036 (2016 – Medical Delivery Zones)
3. Resolution 22-144 – Authorizing Number of Cannabis Delivery Permits (Permit Cap)
4. Paso Robles Municipal Code Chapter 3.22 - Cannabis Business Tax
5. Cannabis Delivery (Non-Storefront Retail) Zones Map
6. 2022 Community Outreach Summary