



# City of Corona

## Commercial Cannabis Fee Study

### Final Report of Findings

### October 28, 2020

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## INTRODUCTION

At the request of the City of Corona (City), MGT of America Consulting, LLC (MGT) reviewed the City ordinances that govern commercial cannabis, developed a fee structure, and calculated the full cost of the City activities associated with the new regulations. MGT reviewed the costs using fiscal year 2018-2019 departmental expenditures and personnel costs and met with key city departments responsible for the application, site selection and regulation of commercial cannabis. The objectives of the MGT project were to determine costs, develop fee methodology, document city processes associated with commercial cannabis and develop appropriate fees to support this endeavor and the associated activities.

MGT is a national consulting firm focused on state and local government. MGT works with 33 of the 58 counties in California and over 100 cities on cost accounting, state mandates, cost allocation and fee studies. MGT has calculated regulated cannabis costs and/or fees for Santa Cruz County, City/County of Denver, Monterey County Environmental Health and the State of Maryland.

## LEGAL FOUNDATIONS

### State Marijuana Laws

On November 8, 2016, California voters passed Proposition 64, entitled the Control, Regulate, and Tax Adult Use of Marijuana Act (“AUMA”). Adults over 21 years old may possess, consume, manufacture, distribute, test, and cultivate nonmedical, recreational marijuana in California. However, businesses may not grow, distribute, or sell nonmedical, recreational marijuana until they receive a state license. The State began to issue licenses January 1, 2018. Before obtaining a state license, businesses must seek a local license and obtain approval to operate/use a specific location first. SB 64 and SB 94 were passed thereafter, further clarifying State marijuana/cannabis laws. On June 27, 2017, The Medical and Adult Use Cannabis Regulation and Safety Act (“MAUCRSA”) was signed into law. The MAUCRSA law provides a comprehensive regulatory framework for licensing, control, and taxation of medical and adult-use cannabis-related businesses in California.

### Local Cannabis Laws

On October 21, 2020, a second reading of Ordinance 3321 was approved to adopt Corona Municipal Code (CMC) Amendment Chapter 5.36 of Title 5 and Chapter 9.19 of Title 9. This ordinance will establish developmental standards and permitting requirements to allow certain types of commercial cannabis businesses (storefront retail, non-storefront retail, manufacturing, distribution, testing laboratories, and microbusinesses) to operate within the City’s industrial zones.

### User Fee Law

In California, local government is granted the authority to impose user and regulatory fees for services by the State Constitution. As defined by Article XIII C, Section 1, a fee may not exceed the estimated reasonable cost of providing the service. For a fee to qualify under this authority, it must relate to a service or activity requested by an individual. If this request causes the local agency to perform service that is either discretionary or subject to regulation, then it is considered a user fee. The City’s authority to charge user fees is also further clarified by California Government Code Sections 54985, 66014, Proposition 218 and 26.

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## COST CALCULATIONS

### FEE METHODOLOGY

The standard approach for analyzing the cost of providing fee-related services is commonly referred to as a “bottom up” approach. The bottom up approach was used to analyze these commercial cannabis regulation fees. A general description of the “bottom up” approach is as follows:

1. Identify all direct staff time spent on the fee related activity or service

MGT conducted a series of meetings with staff from Finance, Planning, Police, Fire, and Legal to identify every employee, by classification, who performs work directly in support of a fee related service. Direct staff costs are incurred by employees who are “on the front line” and most visible to the customers (e.g. Inspectors, counter staff, plan reviewers, etc.). Once all direct staff were identified, departments estimated how much time those employees spend, on average, working on each fee service.

In addition to the estimated time spent on each fee service, the Legal Department spent time developing regulations, preparing applications, and drafting agreements and administrative policies. The cost of this time was allocated to all fees in the schedule proportionately based on each fee’s cost.

Developing time estimates for fee related services can be challenging and departments should be commended for the time and effort they put into this. Although MGT provided departments with templates and other tools to assist them in developing average or “typical” time estimates, these calculations were necessarily developed by the subject matter experts in each operating department.

2. Calculate direct cost of the staff time for each fee using productive hourly rates

Productive hourly rates are used to support full cost recovery. A full-time City of Corona employee typically has 2,080 paid hours per year (40 hours x 52 weeks). However, cost studies reduce this number to account for non-productive hours (sick leave, vacation, holidays, training, meetings, etc.). MGT calculated the productive hourly rate for each classification based on the salary and benefit information provided by the City and an analysis of annual productive hours by classification. For most positions, the productive hours used were 1,643, deducting time for paid leave, sick time, holidays, meetings, and training.

3. Determine any other operational costs (i.e. other than personnel costs) that can readily be traced to a specific fee-related service as a direct cost

Professional services contracts are an example of an expense that can often be traced to a specific service or program.

4. Determine indirect or “overhead” costs

Generally, there are two types of indirect costs: departmental and citywide overhead. These indirect costs are allocated across user fee services to capture the full cost of providing the service. If a department performs non-fee related services, a commensurate amount of indirect cost is segregated and not allocated to the fee related services.

- Departmental overhead costs – these costs include managers, supervisors, and support staff as well as other operational costs, such as materials and supplies that are incurred for a common purpose and not readily assigned to a service or program.

- Citywide overhead costs – each department and fund within the city receives an allocation of cost from the city’s various central service departments. Central service departments are those whose main function is to support other city departments and funds. Such departments include Management Services, City Attorney, Human Resources, Administrative Services-Finance, and Information Technology. The methods for allocating central service costs can vary but must demonstrate a causal relationship between the allocation methodology and the costs allocated to the operating department. There are some state and federal guidelines stress the importance of allocating citywide overhead costs in a way that “equitably reflect the value of service” provided to the department receiving the service(s). In most cases, industry standards call for one of the following methodologies for allocating central services costs:
  - Number of full-time equivalent staff in the operating department
  - Total operating budget, excluding debt and certain non-operating costs
  - Actual or estimates of time spent in support of the operating department based on documented procedures

## DATA & SOURCES

The sources for cost information for the calculations in this report are the City’s 2018-2019 budgeted costs. MGT was provided salaries, expenditures and cost allocation charges expected for the city’s 2018-2019 fiscal year.

## COST RECOVERY

The city’s cost recovery policy for the commercial cannabis permit program is 100%.

## FULL COST HOURLY RATES

The Planning Department leads the City of Corona’s efforts on Commercial Cannabis Regulation and has several positions that contribute to activities in this program. Full cost hourly rates include Indirect costs such as departmental and citywide overhead and are based on 1,643 productive hours of a 2,080 year. Productive hours are the hours an employee is available to work and does not include paid leave, breaks and staff meetings. Hourly rates for planning staff are shown as follows in Table 1:

| Table 1 - Planning Hourly Rates |                  |
|---------------------------------|------------------|
| Position                        | Full Cost Hourly |
| Associate Planner               | \$146            |
| Planning Technician             | \$114            |
| Planning Admin Asst             | \$115            |
| Planning Manager                | \$206            |

Several departments outside of the planning department participate in the process for regulation of commercial cannabis. Those positions are shown below in Table 2:

| Table 2 - Non-Planning Hourly Rates |                  |
|-------------------------------------|------------------|
| Position                            | Full Cost Hourly |
| Deputy Bldg Official/Plan Check Mgr | \$213            |
| Code Enf Officer II                 | \$126            |
| Comm Dev Director                   | \$383            |
| Senior Engineer                     | \$202            |
| Police Admin Asst                   | \$71             |
| Police Sr Detective                 | \$166            |
| Police Sergeant                     | \$191            |
| Police Lieutenant                   | \$159            |
| Police Captain                      | \$279            |
| Police Chief                        | \$304            |
| Fire Marshal                        | \$159            |
| Fire Inspector I                    | \$73             |
| City Attorney                       | \$276            |
| Chief Deputy City Attorney          | \$211            |
| Senior Paralegal                    | \$131            |
| Accounting Technician III           | \$87             |

## COST OF SERVICE ANALYSIS

The schedule of proposed fees reflects the services, activities and efforts associated with application review, approval and annual regulatory process required by the City’s Commercial Cannabis Regulations. Those regulations are a combination of the local ordinance that governs approved uses of commercial cannabis. Attachment A to this report provides a listing of the fees in the program, showing the full cost and estimated annual volume of each. The following descriptions broadly define each category of the proposed fee schedule:

**Initial Applications** – Fees intend to recover the costs of permitting a new cannabis business in the City of Corona per Ordinance No. 3321 which amends Chapter 5.36 of Title 5 (Business License and Regulations) and Chapter 9.19 of Title 9 (Public Peace, Morals and Welfare) of the Corona Municipal Code. These fees are non-refundable. In addition, separate live scan fees apply which are paid directly to third parties, state DOJ or federal government. The initial application fee process is shown below:

**Merit-Based Review Ranking Application for Storefront Retail Cannabis Businesses** – Since there will be a limited number of storefront retail commercial cannabis sites available, the City intends to engage a consultant to facilitate a review by a panel of non-city-employee volunteers who will rank

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the applicants based on merit. The cost of the consultant is yet to be determined. After all applications have been received, each applicant will pay an equal part of the consultant cost in order to participate in the ranking review. The highest-ranking applicants may proceed to the next phase of the process. **Cost to be determined.**

**Commercial Cannabis Permit – Storefront Retailer** – This fee recovers the processing costs, review of applications, background checks, and proposed site inspections for applicants seeking permits for storefront retail commercial cannabis businesses. **Only applicants passing merit review will pay this fee.** The total estimated cost of this service is **\$9,948 per application.**

**Commercial Cannabis Permit – Non-Storefront Retailer/Manufacturing/Distribution/Testing Laboratory** – This fee recovers the processing costs, review of applications, background checks, and proposed site inspections for applicants seeking permits for non-storefront retail, manufacturing, distribution, and testing laboratory types of commercial cannabis businesses. **These applicants are exempt from merit review because there is no limitation on the number of permits.** The total estimated cost of this service is **\$8,878 per application.**

**Note:** A “Microbusiness”, that is, a commercial cannabis business with more than one type of operation (manufacturing, distribution, retail) on the same premises, will apply using one of the procedures described above, depending on whether the microbusiness includes a storefront retail component. A microbusiness **with** a storefront retail operation will need to go through the merit-based ranking review before applying; a microbusiness **without** a storefront retail operation will skip that process and apply for a permit using the “Non-Storefront Retailer/Manufacturing/Distribution/Testing Laboratory” application.

**Annual Renewals** – This fee covers the annual review of site use and ensures that the requirements of the initial permit are being followed and the business adheres with all regulations. The renewal process will include site inspections to determine compliance. The estimated cost of this service is **\$1,890 per renewal.**

**Request for Premises Modification** – This fee covers the cost of the review, site inspection, and determination of compliance for a request by the permit holder to modify the premises of their business. The estimated cost of this service is **\$2,285 per request.**

**Transfer of Less Than Majority Ownership** – This fee covers the cost of the application review (including legal review) and background check for a permit holder requesting a transfer of less than majority ownership of their business. The total estimated cost of this service is **\$2,545 per application.**

**Change in Name or Form of Business Entity** – This fee covers the cost of the review (including legal review) of the request by a permit holder to change the name or form of their business entity without changing the ownership. The total estimated cost of this service is **\$1,032 per notification.**

**Change of Premises Location** – This fee covers the cost of the review, site inspection, and determination of compliance for a request by the permit holder to change the location of their premises. The estimated cost of this service is **\$4,696 per application.**

**Live Scan/Background Check** – This fee covers the cost of application and live scan review and issuance of an identification badge for each employee of a commercial cannabis business. Note that cost of the actual live scan and associated DOJ fee is paid directly to the party performing the live scan and the DOJ and not included in this fee. The estimated cost of this service is **\$537 per employee.**

**Employee Identification Badge Replacement** – This fee covers the cost of issuing a replacement identification badge. The estimated cost of this service is **\$79 per badge.**

## RECOMMENDATIONS GOING FORWARD

The City’s commercial cannabis permit program is brand new and therefore staff has not been able to perform time studies, nor is there any historical data to draw from. For this reason, MGT recommends **that**

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the City re-analyze the fees in approximately three years' time. Once the commitment is made to understand the full cost of providing services, it is important to review and update the analysis in order to keep pace with changes in service delivery, staffing changes, and demand levels.

Most of our agencies ask us at the conclusion of the study: how often should this type of study be undertaken? Our advice is to conduct this detailed analysis at least every three but not more than five years, with minor adjustments in the non-study years (to keep pace with economic impacts). MGT recommends the City apply an inflation adjustment to fees annually, based on most recent CPI from All Urban Consumers for the Los Angeles area to keep pace with inflation. The industry best practice is to apply this index once per year as part of the City's annual budget process. This is particularly helpful once an agency has chosen to adopt a cost recovery policy – whether 100% of cost or something less – in order to keep fees at the desired level.

# ATTACHMENT A – FEE DETAIL

City of Corona  
 Cannabis Application and Renewal Fees  
 2020-2021

| Order #         | Service Name  | Fee Description                    | Annual Volume | Per Unit    |           |                  | Current                              |                |                | Annual    |            |           | Footnote |
|-----------------|---|------------------------------------|---------------|-------------|-----------|------------------|--------------------------------------|----------------|----------------|-----------|------------|-----------|----------|
|                 |   |                                    |               | Current Fee | Full Cost | Current Recovery | Annual Cost                          | Annual Revenue | Annual Subsidy |           |            |           |          |
| 1               | Commercial Cannabis Permit - Storefront Retailer  | Per application                    | 12            | \$ -        | \$ 9,948  | 0%               | \$ 119,370                           | \$ -           | \$ 119,370     | \$ -      | \$ 119,370 | 1         |          |
| 2               | Commercial Cannabis Permit - Non-Storefront Retailer/ Manufacturing/ Distribution/ Testing Laboratory | Per application                    | 10            | \$ -        | \$ 8,878  | 0%               | \$ 88,780                            | \$ -           | \$ 88,780      | \$ -      | \$ 88,780  |           |          |
| 3               | Commercial Cannabis Permit - Annual Renewal   | Per renewal                        | 22            | \$ -        | \$ 1,890  | 0%               | \$ 41,575                            | \$ -           | \$ 41,575      | \$ -      | \$ 41,575  |           |          |
| 4               | Commercial Cannabis Permit - Annual Renewal Late Fee  | Per incident                       | 1             |             |           |                  | Penalty, No cost analysis necessary. |                |                |           |            |           |          |
| 5               | Commercial Cannabis - Request for Premises Modification   | Per request                        | 1             | \$ -        | \$ 2,285  | 0%               | \$ 2,285                             | \$ -           | \$ 2,285       | \$ -      | \$ 2,285   |           |          |
| 6               | Commercial Cannabis - Transfer of Less Than Majority Ownership  | Per application                    | 1             | \$ -        | \$ 2,545  | 0%               | \$ 2,545                             | \$ -           | \$ 2,545       | \$ -      | \$ 2,545   |           |          |
| 7               | Commercial Cannabis - Change in Name or Form of Business Entity                                       | Per notification                   | 1             | \$ -        | \$ 1,032  | 0%               | \$ 1,032                             | \$ -           | \$ 1,032       | \$ -      | \$ 1,032   |           |          |
| 8               | Commercial Cannabis - Change of Premises Location   | Per application                    | 1             | \$ -        | \$ 4,696  | 0%               | \$ 4,696                             | \$ -           | \$ 4,696       | \$ -      | \$ 4,696   |           |          |
| 10              | Commercial Cannabis - Live Scan/Background Check  | Per employee, plus current DOJ fee | 1             | \$ -        | \$ 537    | 0%               | \$ 537                               | \$ -           | \$ 537         | \$ -      | \$ 537     | 2         |          |
| 11              | Commercial Cannabis - Employee Identification Badge Replacement                                       | Per card                           | 1             | \$ -        | \$ 79     | 0%               | \$ 79                                | \$ -           | \$ 79          | \$ -      | \$ 79      |           |          |
| Total User Fees |   |                                    |               |             |           |                  |                                      | \$260,897      | \$0            | \$260,897 | \$0        | \$260,897 |          |

**Footnotes**

- Fee #1 - Commercial Cannabis Permit-Storefront Retailer fee will include to-be-determined cost of merit-review consultant divided by number of applicants.
- Fee #10 - Employee Live Scan/ Background Check does not include Dept of Justice fee which will need to be paid separately by applicant.