

# Agenda Report



**MEETING DATE:** Tuesday, May 28, 2024

**TO:** City Council

**FROM:** COMMUNITY DEVELOPMENT DIRECTOR MERRIAM  
ASSOCIATE PLANNER CARMONA

**SUBJECT:** PUBLIC HEARING TO CONSIDER TEXT AMENDMENTS TO  
WATSONVILLE MUNICIPAL CODE CHAPTER 14-16 (DISTRICT  
REGULATIONS) AND CHAPTER 14-53 (CANNABIS FACILITIES)  
REGARDING THE CULTIVATION, MANUFACTURE,  
DISTRIBUTION, TESTING, DELIVERY, AND RETAIL SALES OF  
CANNABIS AND

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## **RECOMMENDED ACTION:**

Introduce an ordinance to amend certain sections of Chapters 14-16 (District Regulations) and 14-53 (Cannabis Facilities) of the Watsonville Municipal Code regarding cannabis facilities, for first reading only, waiving full reading of the text.

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**CEQA REVIEW:** The provisions of the proposed Ordinance have been found to be exempt from the California Environmental Quality Act (CEQA) pursuant to CEQA Guidelines section 15061(b)(3). This section is the "common sense exemption" that states that CEQA applies only to projects which have the potential for causing a significant effect on the environment. If the Lead Agency can determine with certainty that there is no possibility that the activity in question may have a significant effect on the environment, the activity is not subject to CEQA. Pursuant to this section, the proposed amendments and adjustments fit within the general rule that CEQA only applies to projects that have the potential for causing a significant effect on the environment, because the proposed amendments and adjustments would primarily revise administrative processes relating to cannabis operator permits and renewal of those permits and minor regulatory amendments to the operation of cannabis businesses and would therefore not have a significant effect on the environment. The proposed amendments would also not have a significant effect on the environment because they are allowing commercial retail operations in existing commercial districts and therefore the proposed amendments would not have a significant effect on the environment and therefore the activity is not subject to CEQA.

## **BACKGROUND:**

On November 9, 2016, California voters passed Proposition 64 (The Adult Use of Marijuana Act), which legalized cannabis in California. The deadline to pass permanent

state regulations governing the cultivation, manufacture, distribution, testing and sales of cannabis was January 1, 2018.

On December 13, 2016, the City Council adopted Ordinance 1345-16, adding a new Chapter 52 (Cultivation, Processing, Manufacture, Distribution, Testing and Sale of Nonmedical Cannabis) of Title 14 (Zoning) of the Watsonville Municipal Code. The purpose of the ordinance was to make clear to prospective businesses that commercial recreational cannabis activities are not allowed in the City.

On April 25, 2017, the City Council adopted Ordinance 1352-17, adding a new Chapter 14-53 to the Watsonville Municipal Code. The purpose of this ordinance was to provide regulations for both medical cannabis cultivation and manufacturing within the City. Recreational or “adult-use” cannabis continued to be prohibited in the City.

In June 2017, the California State Bureau of Cannabis Control adopted emergency regulations to clarify and make specific licensing and enforcement criteria for commercial cannabis businesses under the Medicinal and Adult-Use Regulation and Safety Act (MAUCRSA or the Act).

On January 1, 2018, the state Medicinal and Adult-Use Cannabis Regulation and Safety Act became effective. These permanent regulations rescinded the emergency regulations adopted in 2017.

On January 16, 2018, the City Council adopted Ordinance 1362-18 which allowed for the cultivation and manufacture of cannabis for the adult-use market, and rescinded Ordinance 1361-18 which prohibited recreational cannabis in the City. These two modifications became effective on March 15, 2018.

On March 13, 2018, the City Council adopted Ordinance 1364-18 which allowed for existing cultivation and manufacturing facilities to distribute cannabis for the adult-use market. This amendment became effective April 26, 2018.

On June 9, 2020, the City Council adopted Ordinance 1404-20 and 14006-20 which amended the Cannabis Ordinance Chapter 14-53 and District Regulations Chapter 14-16 of the WMC. The amendments to the WMC provided the following changes:

- Increased the cannabis cultivation canopy from 5,000 SF to 22,000 SF.
- Allowed cannabis cultivation to be established on more than one parcel for one permit.
- Increased manufacturing permits from 9 to 15.
- Created two standalone distribution permits.
- Allowed processing and nursery permits under the cultivation permit.
- Allowed existing manufacturing and cultivation permit holders to apply for a delivery permit.
- Established three new cannabis retail permits within the Industrial (IG), Industrial Park (IP), and Visitor Commercial (CV) Zoning Districts.

- Created a 600 FT separation buffer from the following sensitive uses: schools (K-12), Parks, Residential zones, Legal residential uses, faith-based facilities, licensed day cares, preschools, and libraries.
- Required background checks for owners and managers only.

On May 7, 2024, the Planning Commission of the City of Watsonville considered the proposed Ordinance and voted 7-0 to adopt Resolution No. 06-24 recommending the City Council adopt amendments to WMC Chapter 14-16 (District Regulations) and Chapter 14-53 (Cannabis Facilities).

### **Planning Commission Meeting**

Staff presented the proposed changes to the Planning Commission for consideration on May 7, 2024. The Planning Commission voted 7-0 to recommend that the Council adopt the proposed ordinances.

### **Community Outreach**

In summer 2023, City staff met with local cannabis business owners to discuss the current regulatory structure, and how the city's cannabis ordinance might be revised again to be more efficient and effective.

On October 10, 2023, Community Development Director Merriam presented a study session on potential modifications to Chapter 14-53 (Cannabis Facilities) to the City Council. The Study Session Staff Report is provided in Attachment 1.

The City Council directed staff to consider the following modifications to the Cannabis Ordinance:

1. Change the cannabis sign regulations to follow the commercial sign standards in WMC Chapter 14-21 Signs.
2. Modify the cannabis annual renewal process to allow for streamlining.
3. Modify the definition of an owner to establish a minimum percentage of ownership stake.
4. Modify the requirement for annual ID badges, limiting it to employees involved in the day-to-day operations of the cannabis business.
5. Allow an open application period of non-retail cannabis permits.
6. Increase the operating hours for cannabis retail.
7. Amend the district regulations to allow cannabis retail in commercial zoning districts.
8. Limit background checks to business owners only.

After the Council meeting, staff met with Community Prevention Partners to review the draft ordinance and gained feedback in best practices for minimizing the impacts that cannabis may have on youth in the community.

Based on the listening sessions and Council direction, staff drafted modifications to the ordinance. The significant changes are outlined below.

**1. Amend the cannabis sign standards (WMC 14-53.401) to adhere to the commercial sign standards found in WMC Chapter 14-21.**

The Cannabis Ordinance restricts cannabis retail signage to one 20 square foot sign and one green cross, both affixed to the building wall and limited to the business name ([WMC § 14-53.401](#)).

Cannabis dispensaries in nearby jurisdictions, like Capitola, Santa Cruz, Salinas, and the County of Santa Cruz, can utilize the commercial sign standards for each jurisdiction. Staff recommends amending the cannabis ordinance to require cannabis businesses to adhere to the commercial sign standards outlined in Chapter 14-21. Allowing the City's dispensaries to follow the City's sign regulations would provide our businesses with the opportunity to signal their presence to customers in a more standard fashion and in keeping with adjacent jurisdictions.

Within Chapter 14-21, there are stipulations regarding the maximum total sign area allowable on a property within each zoning district. In addition, under [Section 14-21.080](#), each business is afforded the opportunity to utilize a variety of sign types, such as awning signs, monument signs, directory signs, and wall signs. Notably, in the IG Zoning District, businesses are permitted up to 2 square feet per linear foot of the building's frontage, with a maximum cap of 300 square feet. The Sign Ordinance also includes provisions for adjusting sign standards for low visibility commercial properties, outlined in [WMC Section 14-21.120](#).

Dispensaries must still comply with state regulations that prohibit cannabis advertising from depicting minors, using child-attractive images, or promoting free goods/accessories ([Cal Code § 15040](#)).

**2. Modify the annual renewal process to allow for streamlining (WMC § 14-53.114).**

During its engagement with the cannabis business community, staff received feedback indicating that the annual renewal process for cannabis businesses is both time-consuming and burdensome. Currently, these businesses must undergo an annual renewal process with both state and local jurisdictions. To facilitate this process, businesses often enlist the assistance of consultants tasked with preparing the necessary documentation.

The City's current renewal procedure requires a new application each year, with the following items to be included (bold/italic requirements are proposed to be removed):

1. The names of the applicant's owners and managers;
2. The street address;

3. The Santa Cruz County Tax Assessor's parcel number of the existing cannabis facility;
- 4. A copy of the recorded deed vesting ownership of the parcel in the current owner;**
5. A copy of the applicant's State-issued license to engage in a cannabis business;
6. The applicant's and owner's waiver and release of the City from any and all liability arising from the application for a cannabis use permit, the issuance of the cannabis use permit, the denial of the cannabis use permit, or the enforcement of the conditions of the cannabis use permit;
- 7. Background information to be determined by the Zoning Administrator, including but not limited to a statement that the applicant(s) and owner(s) have submitted to a LiveScan background check no earlier than thirty (30) days before the date the application for the cannabis use permit is submitted;**
8. Federal tax identification name and number;
- 9. Security plan and any security procedures form that the applicant submitted to the Bureau;**
- 10. For facilities holding a cannabis use permit for cannabis delivery, the cannabis delivery procedures form that the applicant submitted to the Bureau;**
- 11. Vehicle registration and proof of insurance for all delivery vehicles;**
12. For retail cannabis businesses, provide proof that at least fifteen (15%) percent of product inventory is sourced from City of Watsonville cannabis businesses;
13. Proof of compliance with workers' compensation State insurance requirements;
14. Identification of any changes to the information the applicant submitted on the original cannabis use permit renewal application;
15. Any law enforcement or enforcement activity related to the permittee's operations during the past calendar year;

16. A representation that the applicant continues to hold in good standing any license required by the State of California to operate a cannabis facility; and
17. Such other information as the Zoning Administrator deems reasonably necessary to conduct a thorough review of the cannabis use permit renewal application.

So long as a dispensary does not relocate, there is no need for staff to review the deed for the property, as staff would have received this information with the original use permit application. This also applies to security plans for the business as well as delivery procedures. These plans would not be expected to be modified year over year in any substantial way.

Once a person has been entered into the LiveScan system, the Police Department can look up their information at any time and receive an up-to-date criminal history without the need for the person to resubmit the application every year.

Finally, staff believes that vehicle registration confirmation is better managed through the existing regulatory process, which is administered by the DMV and law enforcement. The renewal process each year also includes a site inspection with WPD to verify compliance with local ordinances, to confirm the information provided in the application, and that all security systems are in substantial compliance.

**3. Modify the requirement for annual ID badges, limiting it to employees involved in the day-to-day operations of the cannabis business (WMC § 14-53.406).**

The Cannabis Ordinance currently requires every owner, manager, and employee engaged in a cannabis business to obtain and wear an identification badge issued by the Watsonville Police Department. These badges are required to be renewed annually.

The cannabis businesses have questioned the need for owners who are not involved in the day-to-day operation of the business would need an ID badge and indicated that the process to obtain ID badges for managers and employees on an annual basis is costly and time consuming.

Staff proposes the elimination of the ID badge requirements for cannabis businesses, as the program has not shown any value in the reduction of crime for the facilities nor has it been necessary for City staff in the identification of staff allowed to be on-premises. Further, none of the nearby cities require ID badges, but are focused on reviewing LiveScan information on business owners on a yearly basis.

**4. Limit the application period only for retail cannabis permits WMC § 14-53.109.**

The city's regulations permit various cannabis-related activities, including cultivation, manufacturing, testing, non-storefront retail, distribution, and processing, and retail

dispensary operations. To streamline administrative processes, the Cannabis Ordinance established a fixed application period for all cannabis applications. This approach was implemented to manage staff workload, with the anticipation that a continuous influx of applications might occur without such regulation.

However, while the initial retail dispensary application period did see a large volume of applications, all other cannabis business uses have been manageable.

The city currently has the following cannabis permits available:

- 2 cultivation
- 3 processing
- 2 distribution (stand alone),
- Testing (no limit)
- 10 manufacturing
- 3 non-storefront delivery

Staff recommends the city amend the Cannabis Ordinance to change the application process and allow an unrestricted application period for non-retail cannabis permits. Creating an open application period for all non-retail cannabis permits would allow new non-retail cannabis business to apply on a first-come first-served basis until the permits have been utilized.

#### **5. Increase the operating hours for cannabis retail (WMC § 14-53.306(q)).**

The current hours of operation for retail dispensaries are 9:00 a.m. to 9:00 p.m. The state limits operating hours to between 7:00 a.m. to 10:00 p.m. Hours for nearby jurisdictions vary as shown below.

<b>Jurisdiction</b>	<b>Open</b>	<b>Closed</b>
City of Monterey	9 a.m.	9 p.m.
City of Santa Cruz	7 a.m.	10 p.m.
City of Capitola	7 a.m.	10 p.m.
City of Salinas	6 a.m.	10 p.m.
County of Santa Cruz	8 a.m.	10 p.m.
County of Monterey	8 a.m.	8 p.m.

Staff recommends that the City adjust operating hours for retail dispensaries to increase to 8:00 a.m. – 10:00 p.m. with the last delivery scheduled at 9:30 p.m. to align more closely with nearby jurisdictions.

#### **6. Amend the district regulations in Chapter 14-16 to allow cannabis retail uses in certain commercial zoning districts.**

The Cannabis Ordinance currently limits cannabis retail uses to the Industrial Park (IP), General Industrial (IG), and Visitor Commercial (CV) Zoning Districts. Presently, the city hosts three established retail dispensaries exclusively situated in

the IP and IG zones. Notably, two of these dispensaries face limited visibility from the street due to their location within a heavy industrial zone.

These areas, situated away from bustling thoroughfares, have unfortunately become easy targets for criminal activity directed at retail dispensaries. In October of 2023, The Catalyst dispensary on West Beach Street fell victim to a robbery. The perpetrators executed the robbery swiftly, completing the operation in under 10 minutes and evading timely response from the WPD. Last month, the same occurred at CannaCruz on Kearney Street.

Additionally, both businesses in the General Industrial Zoning district are difficult to find and out of the way for customers.

In light of these security concerns, cannabis business owners have urged the city to reconsider its stance on retail dispensary locations, proposing an amendment to the cannabis ordinance that would permit retail dispensaries in commercial zoning districts, which would provide higher visibility and lower risk of criminal activity.

The Cities of Salinas, Santa Cruz, Capitola, Hollister, and Monterey and the Counties of Santa Cruz and Monterey all allow retail dispensaries in commercial zoning districts. Watsonville is the only city in the surrounding area that has limited retail dispensaries to locations within the Industrial zoning districts and the Visitor Commercial zoning district, which has extremely limited acreage.

Staff recommends that the ordinance be amended to allow retail dispensaries in the CT (Thoroughfare Commercial), CV (Visitor Commercial), CNS (Neighborhood Shopping Center), and CN (Neighborhood Commercial) zoning districts, so that, coupled with a modification in separation requirements, would allow for dispensaries to be located along the City's main thoroughfares of Freedom Boulevard, East Lake Avenue, and portions of Main Street outside of the Downtown Watsonville Specific Plan Area (See Attachments 3 and 4).

**7. Amend the separation requirements (WMC § 14-53.105) and create new definition for youth centers.**

Table 1 identifies the separation requirements the City currently uses to regulate the location of all cannabis related uses.

**Table 1 - Separation Requirements**

	Cultivation and Processing	Manufacture	Distribution	Testing	Retail
School (K-12)	600 FT	600 FT	600 FT	600 FT	600 FT
Park	600 FT	600 FT	600 FT		600 FT
Residential district	250 FT	250 FT	250 FT		250 FT



Legal residential use	100 FT	100 FT	100 FT		100 FT
Faith-based facility, licensed daycare, preschool or library	600 FT	600 FT	600 FT		600 FT

The retail cannabis businesses have requested that the city amend its separation requirements to match the states guidelines. The Business and Professions code [Section 26054](#) states the following:

A premise licensed under this division shall not be located within a 600-foot radius of a school providing instruction in kindergarten or any grades K through 12, day care center, or youth center that is in existence at the time the license is issued, unless the department or a local jurisdiction specifies a different radius.

The cities of Santa Cruz and Capitola and the County of Santa Cruz have defaulted to the state guidelines for cannabis uses, requiring a 600-foot separation buffer from the following sensitive uses: Schools (K-12), day cares, and youth centers.

Staff recommends that the City amend its cannabis separation regulations to adhere to the state guidelines for all cannabis uses except cultivation. This action would remove the following uses from the separation regulations for retail, manufacturing, processing, testing and distribution:

- Park
- Residential district
- Legal residential use
- Faith-based facility
- Library

Staff also included a definition for youth centers for clarity:

“Youth Center” shall mean any public or private facility that is exclusively used to host recreational or social activities for minors (under 18 years of age), such as private youth membership organizations or clubs, social service teenage club facilities, or amusement facilities. Youth Centers does not include any building, locations, or facility where any programs, activities, or services:

- a) Are offered at private residences,
- b) Involve martial arts/combat sports, cultural or similar education, or physical fitness, or
- c) Are offered for fewer than five (5) hours per day each day the building, location, or facility is open.

Notwithstanding the foregoing, youth centers shall also mean any facility determined by the City of Watsonville Parks Department to be a recreation center in a City park.

To evaluate the impact of allowing retail dispensaries within the additional commercial zoning districts, staff conducted a comprehensive analysis, applying two distinct separation buffers from sensitive uses to determine the potential areas in which a dispensary might locate:

- 1,000-foot separation from sensitive uses (Attachment 3)
- 600-foot separation from sensitive uses (Attachment 4)

The 1,000-foot separation map adheres to the recommended guidelines proposed by prevention partners, indicating that there would not be any commercial properties in which cannabis retail establishments could be permitted.

Applying a 600-foot separation buffer opens up commercially zoned parcels where retail dispensaries could potentially locate. Specifically, the map identifies parcels located in the CT, CNS, and CN zoning districts that are strategically positioned along major thoroughfare corridors such as Freedom Boulevard, East Lake Avenue, and several sections of Main Street outside of the Downtown Watsonville Specific Plan area.

Attachment 4 shows the 600-foot separation buffer from the following sensitive uses:

- Schools (K-12)
- Day cares
- Youth centers

Based on this data, staff proposes the following distance requirements for cannabis businesses:

	Cultivation and Processing	Manufacture	Distribution	Testing	Retail
Schools, licensed daycares and youth centers	600'	600'	600'	600'	600'
Park	600'	NA	NA	NA	NA
Residential district	250'	NA	NA	NA	NA
Legal residential use	100'	NA	NA	NA	NA '
Faith-based facility or library	600'	NA	NA	NA	NA

**8. Remove 24-hour on-site security requirements for retail dispensaries (WMC § 14-53.404(13)).**

The Cannabis Ordinance requires retail dispensaries to have a 24-hour security guard on the premises unless alternative provisions have been approved by the Police Department. The cannabis businesses have expressed that this requirement is extremely costly and that the state only requires on-site security during operating hours. Therefore, staff recommends that City amend its Cannabis Ordinance to require on-site security for retail dispensaries during operating hours and require a security surveillance monitoring system during non-operating hours.

None of the nearby jurisdictions require on-site security to be present outside of business hours.

As the businesses have indicated that this requirement is too costly to implement, and they are willing to take the risk of digital surveillance of their premises without on-site security personnel, staff proposes that this requirement be removed from the ordinance.

**9. Limit background checks to business owners only (WMC § 14-53.110).**

The current Cannabis Ordinance mandates background checks for both owners and managers of cannabis businesses. However, in response to challenges posed by high employee turnover rates, businesses have proposed eliminating the background check requirement for cannabis managers. They argue that this requirement substantially delays the hiring process, impeding operational efficiency.

Nearby jurisdictions only require background checks for business owners, except for the City of Monterey, who requires background checks for employees as well. Given that background checks can take up to 4 weeks to complete, it is difficult to navigate the hiring process for managers with such a long lead time.

To address these concerns and streamline operations, staff recommends amending the Cannabis Ordinance to require background checks only for owners of cannabis businesses. This adjustment aims to expedite the hiring process while still maintaining essential security measures.

**Review and Recommendation from Community Prevention Partners and Pajaro Valley Prevention and Student Assistance**

To assess the potential implications of the proposed changes to the City's cannabis ordinance, City staff met with prevention partners to address community concerns, specifically the impacts that cannabis exposure and use have on children. This dialogue culminated in a detailed written response dated April 3, 2024 (Attachment 2). Within this document, staff provided an analysis covering several key areas:

- Expansion of dispensaries into commercial zoning districts
- Modification of separation requirements
- Adherence to the City's sign ordinance and state regulations regarding cannabis signage and advertising
- Potential adjustments to operating hours

The description of recommendations and staff's response are listed in Attachment 2 to this staff report. Prevention Partners shared concerns that allowing retail cannabis in more than one commercial zoning district would increase visibility and serve to 'normalize' cannabis to kids. Prevention partners recommended increasing the sensitive use buffer to 1,000 feet. Prevention partners similarly recommended that the sign regulations remain intact to reduce the visibility to children and recommended that operating hours not change.

### **STRATEGIC PLAN:**

The proposed revisions to Chapter 14-53 (Cannabis Facilities) and 14-16 (District Regulations) will provide more visibility, more location options, and more streamlined permitting for cannabis business owners while still providing a comprehensive regulatory program for all types of cannabis businesses in Watsonville. The revisions are consistent with and support Priority #1 of the 2023-2025 Strategic Plan (Economic Development). The increased visibility and accessibility of retail cannabis facilities will create job opportunities and provide additional tax revenue for the City.

The proposed revisions were developed with input from local cannabis business owners, the prevention community, and the Watsonville Police Department with the goal of balancing the welfare of youth in the community with the challenging business environment for the cannabis industry. As such, they are consistent with and support Priority #5 of the 2023-2025 Strategic Plan (Public Safety) because the revisions maintain City oversight of cannabis facilities and ensure the continued health and safety of the community.

### **FINANCIAL IMPACT:**

It is likely that the revisions to the Cannabis Ordinance will provide increased tax revenue through the cultivation, manufacturing, and retail sales tax of cannabis.

### **ALTERNATIVE ACTION:**

The Council could choose not to adopt the proposed ordinance or could suggest additional revisions which staff could develop into a revised ordinance and bring back to the Council at a later date.

### **ATTACHMENTS:**

1. City Council Cannabis Study Session Staff Report Dated October 10, 2023
2. Community Prevention Partners Letter Dated April 3, 2024
3. 1,000 Foot Separation Buffer Map
4. 600 Foot Separation Buffer Map
5. Chapter 14-53 Cannabis Facilities Ordinance Amendments
6. Chapter 14-16 District Regulations Ordinance Amendments