



**CITY OF STOCKTON**

**CANNABIS EQUITY ANALYSIS**

MAY 2021

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## INTRODUCTION

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Long-standing and persistent obstacles to general business opportunities for affected communities (primarily Black/African American and LatinX) that exist broadly within the United States are even more severe regarding cannabis-related businesses, largely because of racial targeting such as that associated with the War on Drugs. The primary purpose of this Cannabis Equity Analysis (“Equity Analysis”) is to identify communities, if any, that have been negatively impacted disproportionately by law enforcement of cannabis related crimes within the City of Stockton. This analysis provides a data-informed look at the history and current conditions of impacts the legalization of cannabis had on the City, including an analysis of poverty and Stockton Police Department statistics. It reviews known characteristics of the City’s existing cannabis industry and discusses barriers to entry into the industry. Finally, the Equity Analysis examines the City’s existing equity program and provide recommendations regarding policy options meant to foster equitable access to industry participants.

### EXECUTIVE SUMMARY

This Equity Analysis has confirmed through several analyses that the too common and predicted disproportionate enforcement of cannabis related crime on Black/African American and LatinX communities exists in Stockton. The City’s current equity program legislation is well designed to address this challenge, but more support and resources would be helpful, and in particular, establishing and implementing program benefits and services provided to cannabis equity applicants.

Thank you to the City of Stockton Department and the Community Development Department (Ariana Adame) for their assistance with this study.

## 1 – SOCIAL EQUITY ANALYSIS

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### 1.1 – METHODOLOGY

This Equity Analysis analyzes historical cannabis-related arrest statistics in the City of Stockton in relation to low income populations and race and ethnicity data to identify communities disproportionately affected by cannabis enforcement. Historical cannabis-related arrest data, provided by the Stockton Police Department (“SPD”), was compared to census data to identify any disparities in cannabis-related arrests across the City’s demographics. Next, the SPD data was analyzed by Police Districts to determine arrest “hot spots” within the City. Finally, low income and minority census block groups were mapped to determine whether a nexus exists between the identified arrest hot spots and low income and minority populations in order to identify communities disproportionately affected by cannabis enforcement.

Cannabis-related arrest data was obtained from the SPD for years 2000 to 2020. The SPD collects and stores cannabis-related arrest data by Police Districts. The City is divided into six districts.

Low income and demographic data were derived from the 2015-2019 American Community Survey (ACS) 5-Year Estimates. The U.S. Census Bureau provides and publishes both ACS 1-year estimates and 5-year data. The 2015-2019 5-Year Estimates was selected for this analysis due to its increased statistical reliability for smaller geographic areas such as the City of Stockton.

### 1.2 – LIMITATIONS OF THE EQUITY ANALYSIS

As previously mentioned, the SPD data is collected and reported based on Police District. ACS data on the other hand, is broken down by census block groups. A census block group is an area defined by the U.S. Census Bureau that usually has in the range of 600-3,000 people living in it. Within the City limits, the census block groups are geographically smaller than the individual Police District boundaries. As a result, the analysis is unable to identify specific census block groups that have been disproportionately affected by cannabis enforcement and is limited to analyzing trends across the Police Districts. Despite these limitations, this Equity Analysis provides a data-informed process to identify communities disproportionately affected by cannabis enforcement.

### 1.3 – CANNABIS ENFORCEMENT HISTORY

Prior to the 1900’s, cannabis was cultivated throughout the United States primarily for its industrial use (as “hemp” for use in a variety of commercial items including paper, rope, textiles, etc.) and its medicinal uses with very little targeted government regulation. Cannabis use for its psychoactive effects began to increase during this time, while the widespread national “anti-intoxicant” sentiment that resulted in Prohibition of alcohol was also emerging.

As a result, beginning in the early 1900s, most States began placing restrictions on the cultivation and sales of cannabis. The first national regulation of cannabis was created by the Marihuana Tax Act of 1937 (as marijuana was spelled at the time), which placed a tax on the sale of cannabis and allowed for law enforcement to make arrests for non-payment of the tax. The Narcotic Control Act of 1961 and the Controlled Substances Act of 1970 officially made the manufacture, importation, possession, use, and distribution of cannabis illegal throughout the United States. The Drug Enforcement Agency was created in 1973 and began increasing its enforcement activities, while recreational cannabis use was also increasing – first as popularized by the counter-culture revolution of the time and then as it moved into the more mainstream population. The term “War on Drugs” emerged following several press conferences held by then-President Richard Nixon during the Summer of 1971.

The Comprehensive Crime Control Act of 1984 increased federal penalties for cultivation, possession, or transfer of marijuana, and the 1990 Crime Control Act provided funding for local law enforcement agencies to seize private property associated with unlawful drug activities, including cannabis cultivation or distribution.

Illegal cannabis use was increasing, and so was the response from law enforcement. In their 2012 definitive analysis on the subject (“How Risky Is Marijuana Possession? Considering the Role of Age, Race and Gender”), researchers Holly Nguyen and Peter Reuter point out that:

“There has been a dramatic rise in the number of arrests for simple possession since 1991. In 2008, about 800,000 individuals were arrested for possession of small amounts of marijuana (typically less than an ounce). That figure was more than three times the number in 1991.”

And most importantly, Nguyen and Reuter showed that although cannabis use rate was about the same for white and black Americans, rates of arrest are about 3 times higher for Blacks:

“Although Whites and Blacks show an overall increase in arrest rates since 1991, the rates for the two races are markedly different. In 1991, Blacks were arrested twice as often as Whites. In 2008, Blacks were more than three times likely to be arrested as Whites. This starkly contrasts with their almost identical rates of use.”

Meanwhile, although the War on Drugs continued to rage and affect Black/African American, LatinX and indigenous communities disproportionately, attitudes of Californians began to change significantly in the early 1990s. The medicinal value of cannabis to HIV patients for appetite stimulation and pain management was well supported by Californians who began a 20-year acceptance of medicinal, and ultimately recreational, cannabis along with the associated de-criminalization.

In 1996, Californians passed Proposition 215, the Compassionate Use Act, which allowed for the uses of medicinal cannabis. In 2011, there were notable changes in California law, and some misdemeanor marijuana statutes were re-classified as infractions, leading to a significant decline in misdemeanor marijuana arrests. The Medical Marijuana Regulation and Safety Act was adopted by the California Legislature in 2015, and in of November 2016, California voters passed Proposition 64, which legalized the possession and use of marijuana for individuals 21 years of age and older and reduced the offense degree for a number of marijuana-related offenses. Proposition 64 essentially ended cannabis prohibition in California. For example, in 2014, there were 13,300 felony arrests for cannabis in California, where that number had dropped to 1,181 by 2019.

However, much of the damage had been done, and the long term effects of the War on Drugs, especially in disproportionately affected communities, have persisted and are well documented. For example, in their 2017 research for the Cato Institute (“Four Decades and Counting: The Continued Failure of the War on Drugs”) Christopher J. Coyne and Abigail R. Hall point out that:

“A felony drug charge can also cause an individual to lose eligibility to work for the federal government; enlist in the U.S. Armed Forces; obtain an import, customs, or other license; or obtain a passport. Many private-sector job applications require criminal background checks and the disclosure of felony convictions, preventing individuals convicted of drug offenses from obtaining gainful employment. Given the rate at which minorities are arrested for crime, this has immense implications for the long-term prosperity of both individuals and broader communities.”

Further, in its 2020 “Crime in California” report, the California Department of Justice indicated that although the overall number of arrests for cannabis related activities is trending downward since legalization, arrests are still disproportionately high for non-white citizens - Hispanics accounted for nearly 42% of those arrests, followed by Blacks, at 22%, with whites at 21%.

#### **1.4 – CITY OF STOCKTON DEMOGRAPHICS**

Figure 1 below, shows the City of Stockton 2015-2019 5-Year demographic estimates. For people reporting one race alone, 44.8 percent were White; 11.2 percent were Black or African American; 0.7 percent were American Indian and Alaska Native; 21.5 percent were Asian; 0.6 percent were Native Hawaiian and Other Pacific Islander, and 9.4 percent were some other race. An estimated 11.8 percent reported two or more races and an estimated 42.7 percent were Hispanic.

**FIGURE 1 – CITY OF STOCKTON DEMOGRAPHICS BY RACE, 2019 (5-YEAR)**



Race	Population	Percent
White alone	138,587	44.8%
Black or African American alone	34,481	11.2%
American Indian and Alaska Native alone	2,084	0.7%
Asian alone	66,614	21.5%
Native Hawaiian and Other Pacific Islander alone	1,768	0.6%
Hispanic or Latino (of any race)	131,927	42.7%

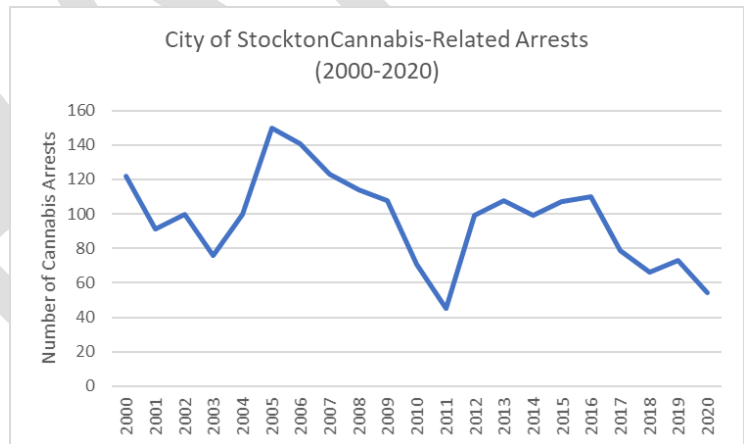
Source: U.S. Census Bureau, 2015-2019 American Community Survey 5-Year Estimates

### 1.5 – CANNABIS-RELATED ARRESTS

From 2000-2020, there were a total of 2036 cannabis-related arrests citywide. Cannabis-related arrests reached the highest in 2005, with a total of 150 arrests within Stockton. From 2012-2020, the number of arrests decreased in a downward trend, as is common throughout California due to decriminalization. See Figure 2, below.

**FIGURE 2 – CITY OF STOCKTON NUMBER OF CANNABIS-RELATED ARRESTS BY YEAR (2000-2020)**

Year	Number of Arrests
2000	122
2001	91
2002	100
2003	76
2004	100
2005	150
2006	141
2007	123
2008	123
2009	108
2010	71
2011	45
2012	99
2013	108
2014	99
2015	107
2016	110
2017	79
2018	66
2019	73
2020	54



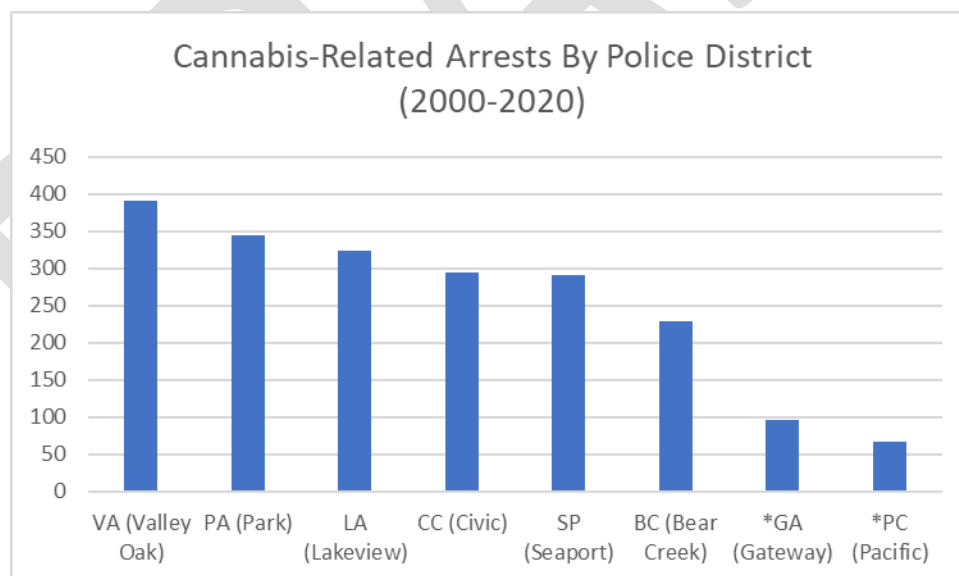
Source: Stockton Police Department

The SPD data is collected and reported by Police District, and there are six districts within the City limits. In order to determine arrest hot spots within the City, the total number of cannabis-related arrests were calculated for each of the six districts. Figure 3, below, provides the total number of cannabis-related arrests that occurred in each Police District from 2000-2020. The Valley Oak and Park Districts had the highest number of cannabis-related arrests with a total of 391 and 345 arrests respectively or 19.2% and 16.9%. The Bear Creek District had the lowest number, 228 arrests or 11.2%. Overall, the number of cannabis-related arrests were evenly distributed throughout the City.

**FIGURE 3 – CITY OF STOCKTON NUMBER OF CANNABIS-RELATED ARRESTS BY POLICE DISTRICT (2000- 2020)**

Location	Number of Arrests	Percent of Arrests
VA (Valley Oak)	391	19.2%
PA (Park)	345	16.9%
LA (Lakeview)	324	15.9%
CC (Civic)	295	14.5%
SP (Seaport)	290	14.2%
BC (Bear Creek)	228	11.2%
*GA (Gateway)	96	4.7%
*PC (Pacific)	67	3.3%

\*NOTE: eliminated due to boundary reassignment



Source: Stockton Police Department

### 1.6 – CANNABIS-RELATED ARRESTS BY RACE/ETHNICITY

From 2000-2020, Black Black/African American individuals accounted for the highest percentage of cannabis-related arrests (45%) in the City, followed by Hispanic individuals (38.5%) as tabulated in Figure 4, below.

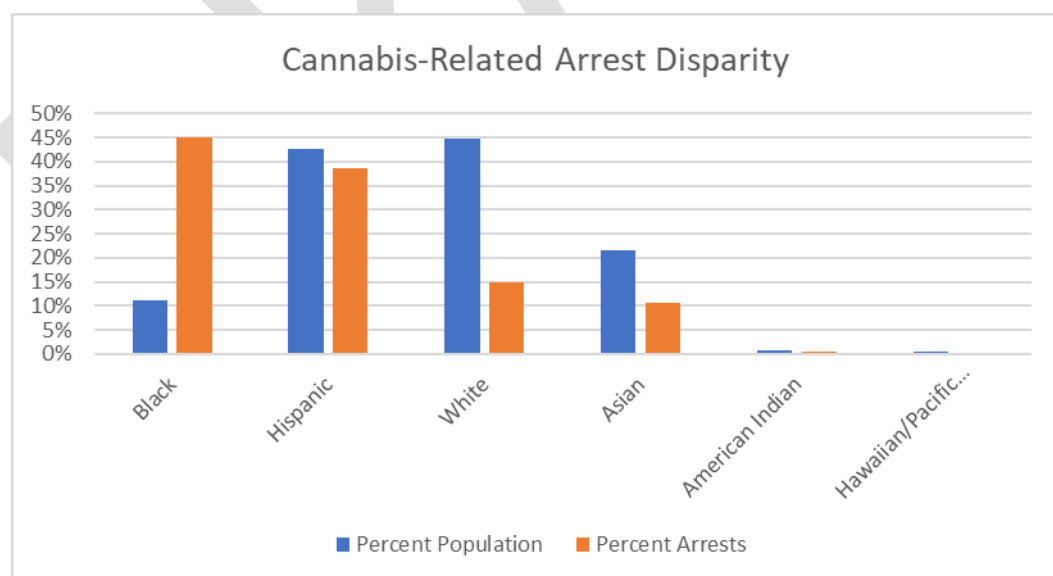
**FIGURE 4 – CANNABIS- RELATED ARRESTS BY RACE (2000- 2020)**

Race	Number Arrests	Population	Percent Population	Percent Arrests
Black	832	34,481	11.2%	45.0%
Hispanic	713	131,927	42.7%	38.5%
White	276	138,587	44.8%	14.9%
Asian	195	66,614	21.5%	10.5%
American Indian	7	2,084	0.7%	0.4%
Hawaiian/Pacific Islander	6	1,768	0.6%	0.3%

Source: Stockton Police Department and ACS 2019 5-year Estimate

When comparing the percentage of arrests across the City's Demographics, it is important to factor in the population percentage of each race. Both Black/African American and Hispanic individuals were arrested at a higher rate compared to their citywide population percentages. Black/African American individuals make up only 11.2% of the city's total population but accounted for 45% of cannabis related arrests in Stockton from 2000-2020. Hispanic individuals were arrested at a comparable, and slightly lower rate (38.5%) to their population percentage (42.7). White and Asian individuals were arrested at a lower rate than their population percentage. This arrest disparity is visually represented in Figure 5 below.

**FIGURE 5 – POPULATION PERCENTAGE VS. ARREST PERCENTAGE BY RACE (2000- 2020)**



Source: Stockton Police Department and ACS 2019 5-year Estimate

## 1.7 – LOW INCOME AND MINORITY POPULATIONS

In this section, low income and minority populations are examined across the City. The United States Environmental Protection Agency (EPA) has developed an environmental justice mapping tool, EJSCREEN, which provides nationwide demographic and environmental information helping users identify areas with minority and/or low income populations. Low income and minority data was obtained from the EJSCREEN, which sources their information from the 2013-2017 ACS 5-year summary file data.

EJSCREEN defines “Percent Low Income” as the percent of a block group's population in households where the household income is less than or equal to twice the federal “poverty level.” “Percent Minority” is defined as the percent of individuals in a block group who list their racial status as a race other than white alone and/or list their ethnicity as Hispanic or Latino—that is, all people other than non-Hispanic white-alone individuals. The word “alone” in this case indicates that the person is of a single race, not multiracial.

Figures 6 and 7, below, map the percentage of the City's population that is low income and minority respectively by census bock group and is compared to the SPD Police Districts.

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FIGURE 6 – LOW INCOME HOUSEHOLDS AS A PERCENTAGE OF POPULATION

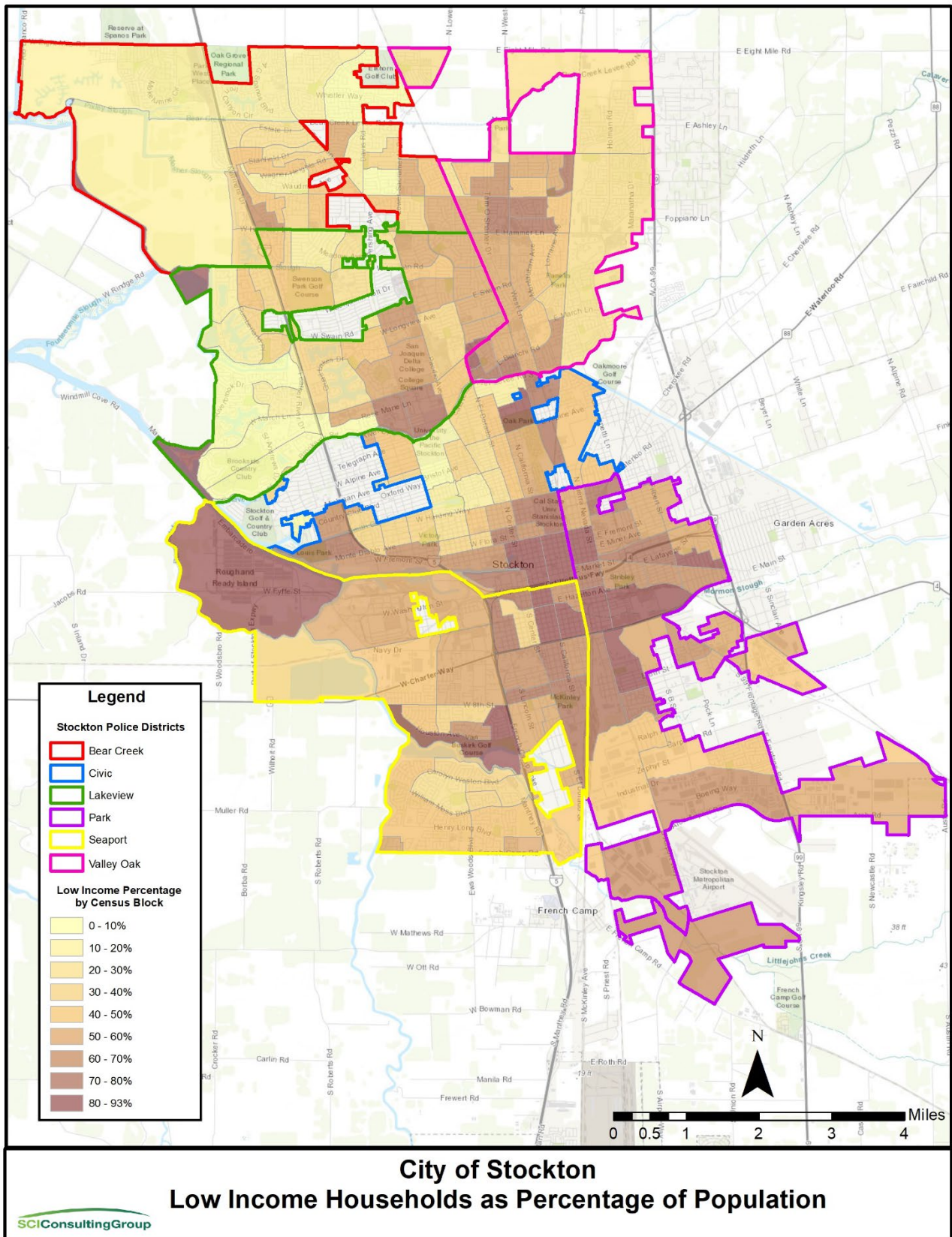
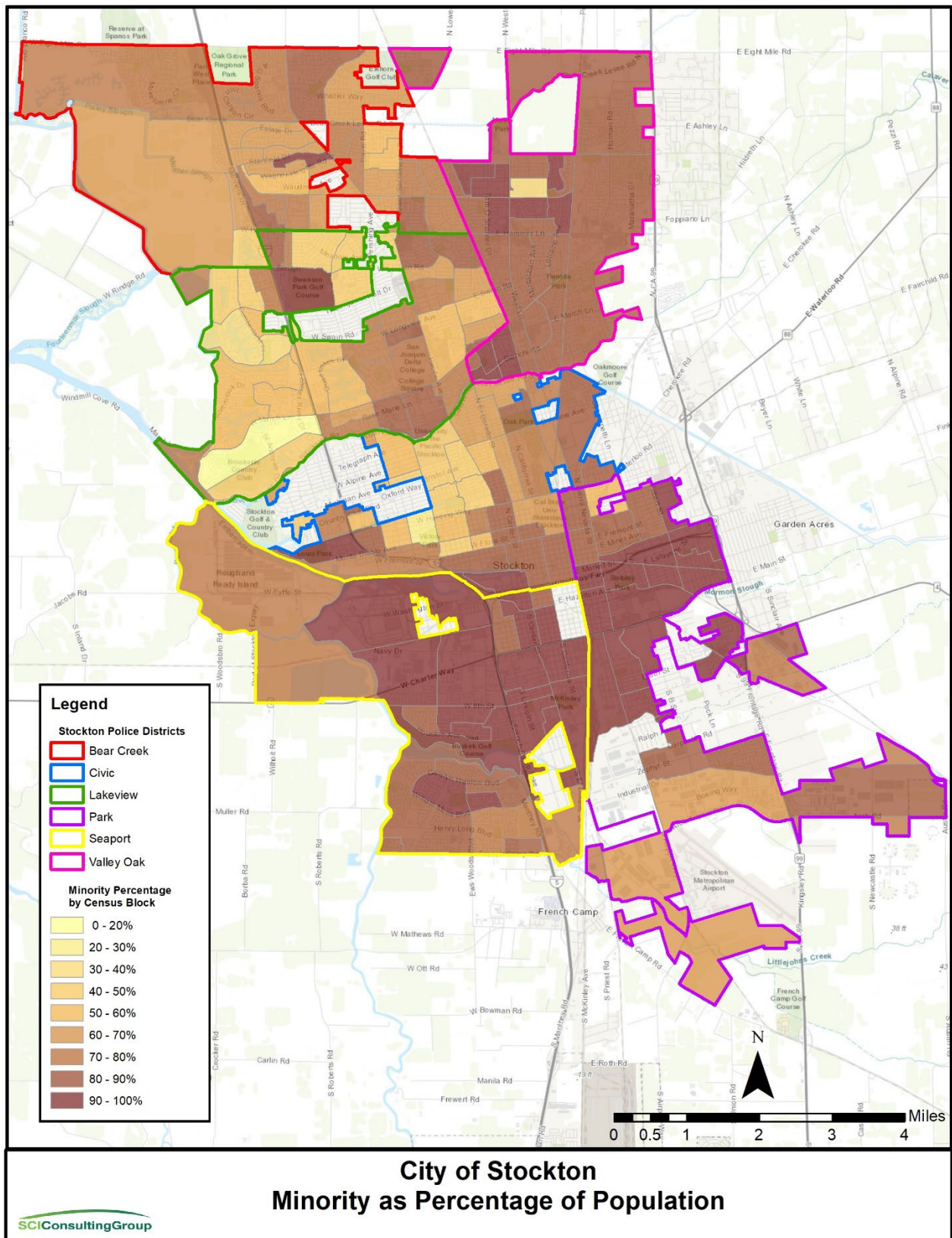




FIGURE 7 – MINORITY AS A PERCENTAGE OF POPULATION



## 1.8 – IDENTIFICATION OF DISPROPORTIONATELY AFFECTED COMMUNITIES

From the analysis of the SPD cannabis-related arrest records, Black/African American and Hispanic populations within the City have been disproportionately impacted from cannabis enforcement in comparison to the rest of the population. Percentage of cannabis-related arrests exceed population percentages for these two groups, especially Black/African Americans who have been arrested almost four times the rate of their overall population percentage.

Figures 6 and 7, above, map the percentage of the City's population that is low income and minority respectively by census block group. Analysis of these maps, indicate that low income and minority populations exist relatively uniformly throughout the City. Due to the limitation on how data is collected and reported by the SPD, the analysis is unable to identify specific census blocks that that have been disproportionately affected by cannabis enforcement and is limited to analyzing trends across the Police Districts.

## 1.9 – CONCLUSIONS REGARDING DISPROPORTIONATELY AFFECTED COMMUNITIES

In summary:

- Analysis of cannabis-related arrests from 2000-2020 across the six Police Districts indicated the number of cannabis arrests were relatively evenly distributed throughout the City.
- Analysis of historical cannabis arrest data indicates Hispanic and Black/African American individuals were disproportionately arrested for cannabis related crimes.
- There are census blocks throughout the City limits (in all Police Districts) where there are high low income populations. Therefore, the disproportionately affected communities exist relatively uniformly throughout the City and are not limited to a specific Police District or a specific geographical location within the City.

## 2 – BARRIERS TO ENTRY

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### 2.1 – OVERVIEW OF KEY BARRIERS

Understanding the barriers to entry into the cannabis industry that populations and communities who have been disproportionately or negatively impacted by cannabis enforcement face is an important factor when developing and implementing an equity program. The success of a local equity program is dependent on the program's ability to reduce and eliminate these barriers. This section examines several key barriers to entry, which can be summarized into the following categories: Financial, Technical, and Criminal.

#### FINANCIAL BARRIERS

When starting any business, financial barriers are among of the most common obstacles entrepreneurs face, and even more so for the regulated cannabis industry, when considering the high costs of local and State licensing fees and the tax burdens. Financial barriers present an even bigger challenge for economically-disadvantaged individuals who have been disproportionately impacted by cannabis enforcement.

- Access to capital or financing – start-up and operational  
Existing federal banking regulations prevent most financial institutions from lending money to cannabis businesses. Hence, cannabis businesses must rely on access to capital from personal wealth, friends and family, and investors for start-up costs. The impeded access to banking services also negatively affects the ability for cannabis businesses to run as efficiently and increases costs of security. This barrier is more pronounced for disproportionately affected communities.
- Access to real estate  
Persistent issues of discrimination regarding access to real estate may be a barrier to disproportionately affected communities' ability to operate in optimal locations. Also, travel times and costs may be elevated.
- Licensing and regulatory fees  
In addition to traditional business start-up (e.g., real estate, inventory, equipment, staffing, marketing, etc.) and operational costs, regulated cannabis business typically have a higher financial burden of licensing and regulatory fees – both to the state and to the local municipality.

#### TECHNICAL BARRIERS

- Business ownership  
The cannabis industry is highly specialized and requires significant product knowledge, access to relationships to regulated vendors, along with traditional business experience with elements such as business plans, payroll taxes, inventory management, etc. Also, the cannabis business marketplace has historically been secretive and underground, and broad information and experience have flowed



more slowly. Again, this barrier is more pronounced for disproportionately affected communities.

- Legal and regulatory

The cannabis industry is highly regulated and requires unique experience and knowledge of the complex compliance and documentation to both the state and local municipality – often requiring significant resources and access to learn and master.

- Awareness

Awareness of the significant business opportunities within the legal and regulated cannabis marketplace continues to be a significant barrier. Moreover, too often, equity-based programs intended to support disproportionately affected communities' access into the cannabis business have also struggled to be well-known within these communities. Additional outreach is needed.

- Distrust of government

Members of disproportionately affected communities often have a greater distrust of government and are likely more cautious to participate in the cannabis industry, especially since it was underground and illegal for many years.

#### **CRIMINAL BARRIERS**

Criminal records (as often exposed through background checks) significantly impede an individual's ability to succeed in this industry, both as an owner and/or an employee. Former felons are less desired by employers in many cases, earn a lower wage, get recommended for jobs less often, and tend to associate with individuals that also have fewer opportunities. In addition, a past criminal history can still present significant challenges for cannabis operators such as accessing financing, loans, or even signing a lease.

### 3 – OVERVIEW OF CANNABIS-RELATED BUSINESS AND ACTIVITIES

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#### 3.1 – CITY OF STOCKTON CANNABIS LEGISLATIVE HISTORY

The City began regulating medical cannabis businesses in Stockton in 2016 following the voter approval of ballot Measures P and Q in the November 8, 2016, General Election, which overturned the current ban on medical cannabis dispensaries, allowed medical cannabis cultivation businesses within the City, and allowed for the increase of business license tax on medical cannabis and marijuana-related businesses.

On November 7, 2017, City Council adopted Ordinance 2017-11-07-1502 for changes to the City's medical cannabis businesses permitting program. This included banning adult-use cannabis businesses. Adoption of the ordinance:

- Addressed items referred by Council for reconsideration;
- Implemented a ban on additional medical and other cannabis businesses;
- Placed a ban on outdoor personal cultivation; and
- Placed certain restrictions on indoor cultivation.

On September 18, 2018, City Council adopted Ordinance 2018-18-1502 to allow medical cannabis dispensaries to sell adult-use cannabis and for medical cultivation businesses to grow adult-use cannabis.

- Allowable dispensaries within City limits increased from four to five dispensaries; and
- Allowable cultivation operator's permits remain at four city-wide.

On March 5, 2019, the City Council adopted Ordinance 2019-03-05-1501 approving an expansion of the Cannabis Regulatory program to include adult-use cannabis, new business types, and an equity program. The Cannabis Regulatory Program's expansion included new business types: Manufacturing (volatile and non-volatile), Distribution, Testing Laboratories, Non-Storefront Retail (delivery only) and Microbusinesses. The update to the program also allowed the expansion of additional Cultivation and Retail Storefront cannabis businesses. The expanded program allows Cultivation, Retail Storefront, Microbusiness, and Volatile Manufacturing business types to be applied for on an annual basis through the Commercial Cannabis Lottery as a part of the controlled expansion initiative from the City. The Commercial Cannabis Lottery also provides an opportunity for Equity applicants to be identified and provided additional opportunities for business ownership.

On July 16, 2019, the City Council adopted Ordinance 2019-07-16-1504 approving additional items for the Cannabis Regulatory Program:

- Establish the Workforce Diversity Incentive Program;
- Adjust commercial cannabis business tax rates from product type to business type;
- Adjust location requirements to align with State regulations;
- Include additional permitted by-right allowances; and
- Streamline City and State approval processes.

### 3.2 – CITY OF STOCKTON EQUITY PROGRAM

The City adopted their equity program on March 5, 2019 to aid those persons from economically disadvantaged communities that experience high rates of poverty and have been disproportionately impacted by the war on drugs.

On an annual basis, the City of Stockton allows the following numbers of new applicants for cannabis business permits:

- Two (2) storefront retail permits;
- Two (2) cultivation permits;
- Two (2) volatile-manufacturing permits; and
- Two (2) microbusiness permits.

Half of these applicants are randomly drawn from a general pool, and half are drawn from an equity applicant pool.

To qualify under the City's equity program, applicants must Equity program must own over 50% of the business, reside within city limits, and fulfill one of the following:

- Be a Minority Business Enterprise (MBE)
- Be a Women-owned Business Enterprise (WBE)
- Live in a California Opportunity Zone
- Live in a California Office of Environmental Health Hazard Assessment (OEHHA) Disadvantaged Community Area as defined by the State of California Senate Bill 535.
- Live in a Housing and Urban Development (HUD) Designated Area

In 2020, the City was successful in applying for and securing grant funding in the amount of \$60,000 from the Governor's Office of Business and Economic Development (GO-Biz) for conducting a cannabis equity assessment and assistance with developing and improving their equity program.

### 3.3 – CITY OF STOCKTON WORKFORCE DIVERSITY INCENTIVE PROGRAM

The Workforce Diversity Program is a voluntary program for Commercial Cannabis Businesses. A cannabis business can apply for the program during the business license application process and annual business license renewal process. Existing Commercial Cannabis Businesses can participate in the voluntary program at the time of their annual business license renewal.

Commercial Cannabis Businesses must meet a 50% diverse workforce requirement during the time of application of the business license or at the time of renewal. To qualify, at least 50% of the business's employees must reside within the SB 535 Disadvantaged Area of the City of Stockton boundaries or reside in the Kelley Drive neighborhood at the time of business license application or renewal. If the threshold is met, the Commercial Cannabis Business will be provided with a 50% reduction of the total amount due in taxes based on estimated gross receipts provided at the time of renewal of the business license.

## 4 – OUTREACH AND EDUCATION

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Over the course of the past couple of years, several cities and counties across the State have proposed and implemented a range of social equity programs with the common goal of addressing long-standing inequities in the cannabis industry. Thus far, many of these social equity programs have suffered setbacks along the way, which can be traced back to their failure to effectively target their outreach and include and engage the impacted communities in the early stages of program development.

In addition to the analysis in Section 1 above, data was collected through a combination of one-on-one stakeholder interviews, public community meetings, and surveys to support the Equity Analysis and to provide policy recommendations to guide the City with the expansion and improvement of their current equity program.

### 4.1 – STAKEHOLDER INTERVIEWS

Primary data was collected through one-on-one interviews with key stakeholders in the City of Stockton. The purpose of the interviews was to provide insight on the community, opportunities, challenges and to help identify key points of interest related to the City's Cannabis Equity Program. A total of 12 interviews were conducted between April and May of 2021. Stakeholders represented the following sectors:

- Current cannabis operators
- Prospective cannabis operators
- Prospective equity applicants
- Private stakeholders (non-cannabis)
- Local business leaders
- Economic development

### 4.2 – COMMUNITY MEETINGS

A virtual public community meeting hosted by the City and SCI Consulting Group via zoom was held on Monday, May 3, 2021 from 5:30PM to 7:30PM. The intent of the meeting was to provide information about the City's proposed Cannabis Social Equity Program, as well as to solicit public comment on ways the City can improve and expand the Cannabis Equity Program. Approximately 16 individuals attended the community meeting.

### 4.3 – SUMMARY OF COMMENTS AND FEEDBACK

Below is a summary of the oral testimony and comments received from the stakeholder interviews and community meeting regarding the City's Cannabis Equity Program. Individuals provided feedback on the barriers to entry that equity applicants face, equity program benefits, and general issues with the City's Cannabis Regulatory program

#### EQUITY PROGRAM BENEFITS AND SERVICES

- Financial Assistance

Overwhelmingly, individuals indicated that financial assistance and access to capital was critical component to ensure equity applicants can participate in the regulated cannabis industry. They would like to see direct assistance in the form of a grant or loan program and also the reduction or deferral of fees.

- Technical Assistance

The second most talked about program component was the need for technical assistance for equity assistance. Participants would like to see a training curriculum developed that covers topics such as general business development training, cannabis-specific business training, and cannabis employment training. Furthermore, several participants expressed that some form of a mentorship or apprenticeship program would be beneficial. This program could provide a “one-stop” mentor to applicants that could provide assistance with lease agreements and assistance with establishing and running a cannabis business.

- Education and Outreach

Several participants expressed the need for more outreach and education directed to the disproportionately affected communities in the City in order to increase awareness of the City’s Equity Program. The outreach efforts should be culturally sensitive and offered in different languages. One individual expressed their interest in hosting cannabis events to assist with the outreach and education. Another participant expressed the importance of community reinvestment in the form of education to the general community on cannabis and the youth on responsible use.

- Incubator Programs

A few participants expressed the benefits of having an incubator program. Incubator manufacturing facilities have been set up in other cities that allow multiple operators to use the facility. One individual stated it could provide incentives to general applicants / existing business owners in the industry to provide mentorship to equity applicants.

- Ownership Requirement

A few individuals raised concerns over issues of the potential of equity owners being taken advantage of and used to gain access to the equity program and eventually being bought out. Overall, the consensus was the 51% ownership requirement was an important component. However, many participants recommended the City stay out of the business arrangement side, citing equity owners should have the right to make business decisions such as selling their business. Instead, the City should focus on providing guidance and educational opportunities for equity business owners.

- Lottery Process

One individual expressed a concern over the City’s lottery process to award equity permits, claiming that one person has one the lottery twice. Other individuals would

like to see more equity permits awarded to applicants. One participant would like to see more flexibility with the time frame for lottery winners to find a space for their business.

- Priority Processing

A few individuals expressed that equity applicants should receive priority processing of their application so that more time could be spent towards getting their business established and to help minimize costs.

- Expungement Program

A few individuals expressed the need for record expungement services and Assistance with the legal process surrounding past cannabis-related crimes.

### **GENERAL ISSUES WITH EXISTING CANNABIS REGULATORY PROGRAM**

- Restrictive Zoning, Location, and Setback Requirements

The City's current cannabis zoning, location, and setback requirement was one of the main concerns of individuals who spoke. The City's current cannabis location and setback requirements are more restrictive than the State requirements. In addition to the State requirements, the City also requires cannabis businesses to locate 600 feet from parks, religious facilities, or alcohol treatment facilities and 300 feet from Residential Zones. As a result, these requirements have made it difficult for general and equity cannabis applicants to find a suitable location in the City to operate. Overly restrictive location and setback requirements have reduced the number of eligible locations for cannabis businesses in the City and increased real estate values and rent costs creating further challenges for prospective operators. One Stockton resident expressed that they gave up on finding a location in Stockton and decided to open up a delivery business in Sacramento.

- Location Requirement in Application Process

Another issue was raised about the City's requirement that an applicant must secure a business location during the application process. Individuals expressed concerns that there is no process established at the beginning of the application process, such as a zoning verification letter, to verify the viability of a property location. As a result, applicants must go through the entire Land Use Permit process before a determination is made on their proposed location.

Furthermore, individuals expressed concerns about the merit of the City's process to request a zoning variance and appeal the determination made on a proposed property location. They felt the Planning Commission would not consider any deviation from the City's zoning requirement despite providing evidence to support their case.

- Employee Work Permit

Several individuals identified issues related to the City's requirement that operators cannot hire an employee unless they have undergone a LiveScan background check and received an employee permit from the Stockton Police Department. According to the feedback, this requirement makes it burdensome to operators because the LiveScan process is time consuming (takes about two weeks) and an added expense to operators. Current operators have experienced delays in their hiring processes, have had potential employees accept jobs elsewhere during the background check process, and have had many potential employees denied work permits for minor nonviolent offenses. They expressed this requirement increases the barriers to entry for equity applicants, but more importantly excludes disproportionately impacted individuals from entering the cannabis work force.

- City Staffing and Communication  
Individuals expressed mixed reviews regarding staffing available to assist cannabis applicants through the application and permitting process. For the most part, many individuals expressed their praise for the City staff on their knowledge and responsive throughout the process. However, a few expressed concerns about the responsiveness of staff and receiving inconsistent and contradictory information.

DRAFT



## 5 – FINDINGS AND RECOMMENDATIONS

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The following section presents key findings from this Equity Analysis, evaluates the City's existing Cannabis Equity Program, and presents recommendations regarding policy options to enhance and improve equitable access and ensure diversity and inclusion in the emerging cannabis industry. Specifically, the City's existing Cannabis Equity program will be evaluated to understand its effectiveness at reducing and eliminating barriers to entry that equity participants face and provides recommendations to improve the program.

### **5.1 – FINDING 1: EQUITY PROGRAM ELIGIBILITY CRITERIA SHOULD FOCUS ON THE INCLUSION OF POPULATIONS AND COMMUNITIES DISPROPORTIONATELY IMPACTED BY CANNABIS ENFORCEMENT.**

Analysis of cannabis-related arrest data indicates minority populations have been subjected disproportionately by cannabis prohibition during the War on Drugs. Furthermore, the analysis determines there is a solid nexus between areas of high concentrations of low income and minority populations throughout the City and a high number of cannabis arrests. Eligibility requirements should focus on serving the communities and populations disproportionately affected by cannabis enforcement.

#### **RECOMMENDATION:**

As previously mentioned in the Equity Analysis, impacted communities and populations exist throughout the City and are not confined to a specific geographical location within the City. The City's current adopted program eligibility requirements, which are written broadly, supports the analysis findings and are inclusive of the impacted communities. To ensure the program prioritizes individuals who have been negatively impacted, the City should consider the addition of the following criteria:

- Conviction or arrest history associated with cannabis-related offenses.
- Low income status.

Low income status is a common eligibility requirement used by many equity programs developed elsewhere in the State. Typically, this is based on a certain percentage of annual family income that is below the Area Median Income (AMI), such as at or below 80 percent of the AMI. Low income status can be confirmed and verified with federal and state income tax returns, payroll stubs, social security benefit letters (i.e. Medi-Cal/CalWORKs, supplemental security income, or social security disability).

### **5.2 – FINDING 2: THE EQUITY PROGRAM APPLICATION AND PERMITTING PROCESS SHOULD BE STRUCTURED TO ENSURE EQUITY APPLICANT SUCCESS AND INCENTIVIZE ONGOING SUPPORT.**

#### **RECOMMENDATION:**

To improve equity applicant success and incentivize ongoing support for equity applicants, the City should consider the following:



- **Priority Applications and Permit Processing:** Consider a prioritized permit process for equity applicants for a quicker approval process.
- **Zoning Verification:** Consider adding a zoning verification process that would allow applicants to verify their cannabis location prior to submitting their application and entering into a lease agreement or purchasing a property.
- **Ratios:** Consider mandating a requisite number/percentage of equity applicants during permitting. The City of Stockton should consider increasing the number of annual permits awarded to equity applicants so that there is at least a 2:1 ratio of equity permits to general non-equity permits.
- **Provisional Approval:** Consider allowing for provisional approval of permits to allow equity applicants to overcome financial barriers. Provisional approval may incentivize potential investors to provide capital investments.
- **Amnesty Program:** Consider an amnesty program to encourage existing nonconforming businesses to transition to the legal market.

### 5.3 – FINDING 3: DEVELOP AND IMPLEMENT PROGRAM BENEFITS/SERVICES FOR EQUITY APPLICANTS THAT ADDRESS AND MITIGATE BARRIERS TO ENTRY.

The City's current cannabis equity program seeks to promote equitable business opportunities for adversely impacted and lower income communities through their current annual lottery system which awards one cannabis business permit to equity applicants for each of the following cannabis activities: Retail Storefront, Cultivation, Volatile Manufacturing, and Microbusinesses. However, the City's equity program has not yet established any program benefits or services provided to equity applicants to help mitigate and address the barriers to entering the regulated cannabis marketplace that equity applicants face.

#### RECOMMENDATION:

The City should consider expanding their equity program to include a variety of services provided to equity applicants to mitigate and address the barriers to entry identified in Section 2 of this report.

Barriers	Recommendations
Financial	<ul style="list-style-type: none"> <li>• Loan or grant program for start-up capital and ongoing business expenses</li> <li>• Fee deferral program or reduced application fees</li> <li>• Coverage of fees associated with training or certification programs</li> </ul>
Administrative/ Technical	<ul style="list-style-type: none"> <li>• Application assistance and permitting workshops</li> <li>• Cannabis regulatory compliance training</li> <li>• Pro bono legal assistance</li> </ul>
Business Acumen	<ul style="list-style-type: none"> <li>• Creation of training curriculum or partnership with local academic institutions</li> <li>• General business development training</li> <li>• Cannabis-specific business training</li> </ul>

	<ul style="list-style-type: none"> <li>• Cannabis employment training</li> <li>• Apprenticeship/mentorship programs</li> <li>• Leverage existing resources and partnerships</li> </ul>
Criminal	<ul style="list-style-type: none"> <li>• Create a program for expungement services to assist those with past cannabis convictions to get their records</li> </ul>

#### **5.4 – FINDING 4: EXPAND THE EQUITY PROGRAM TO INCLUDE NON-LOTTERY CANNABIS ACTIVITIES.**

The City's current lottery system awards one new cannabis permit on an annual basis to equity applicants for the following cannabis activities: Retail Storefront, Cultivation, Volatile Manufacturing, and Microbusinesses. However, the City also allows and does not limit the following cannabis activities: retail non-storefront (Delivery), Non-volatile manufacturing, distribution, and testing labs. The way the City's equity program is currently written, it is not clear if eligible equity applicants wishing to conduct a non-lottery cannabis activity can participate in the City's program.

##### **RECOMMENDATION:**

The City should consider expanding their equity program to include these non-lottery cannabis activities so that eligible equity applicants can also benefit from the programs and services provided by the City's equity program.

#### **5.5 – FINDING 5: GEOGRAPHICAL BARRIERS EXIST AS A RESULT OF CANNABIS ZONING, LOCATION, AND SETBACK REQUIREMENTS.**

The City's current cannabis location and setback requirements are more restrictive than the State requirements. In addition to the State requirements, the City also requires cannabis businesses to locate 600 feet from parks, religious facilities, or alcohol treatment facilities and 300 feet from Residential Zones. Feedback received through the stakeholder and community outreach process indicated that the City's requirements were overly restrictive and made it difficult for general and equity cannabis applicants to find a suitable location in the City to operate. As a result, overly restrictive location and setback requirements have reduced the number of eligible locations for cannabis businesses and increased real estate values creating further challenges for equity applicants.

##### **RECOMMENDATION:**

The City should consider aligning their cannabis location and setback requirements with the State requirements or allow for zoning variances.

#### **5.6 – FINDING 6: CITY OF STOCKTON SHOULD CONSIDER ALLOCATING A PORTION OF CANNABIS TAX REVENUE TO INCREASE STAFFING LEVELS.**

The City must ensure there is adequate staffing, who are trained and educated, that are available to assist and shepherd equity applicants through the application and permitting process. Inadequate infrastructure in place to assist equity applicants has resulted in setbacks for other municipalities in the State who have implemented equity programs.

**RECOMMENDATION:**

The City should consider allocating funding from their cannabis tax revenue to increase and train staff to assist equity applicants.

**5.7 – FINDING 7: THE CITY SHOULD CONSIDER REMOVING THE EMPLOYEE WORK PERMIT REQUIREMENT OR CONSIDERING STREAMLINING THE PROCESS.**

Feedback received from stakeholder interviews identified issues related to the City's requirement that operators cannot hire an employee unless they have undergone a LiveScan background check and received an employee permit from the Stockton Police Department. According to the feedback, this requirement makes it burdensome to operators because the LiveScan process is time consuming (takes about two weeks) and an added expense to operators. Current operators have experienced potential employees accept jobs elsewhere and have had many potential employees denied work permits. This requirement increases the barriers to entry for equity applicants, but more importantly excludes disproportionately impacted individuals from entering the cannabis work force.

**RECOMMENDATION:**

The City should consider removing the employee permit requirement or consider streamlining the process.

**5.8 – FINDING 8: THE CITY SHOULD CONDUCT PUBLIC OUTREACH AND EDUCATION TO INCREASE AWARENESS OF EQUITY PROGRAM.**

The success and effectiveness of a local equity program can be measured by the level of participation. To increase participation, the City should implement a public awareness and educational outreach campaign that targets communities that may have high concentrations of eligible individuals. In doing so, the outreach campaign will help spread awareness of the City's equity program, but also will help to restore trust between disproportionately affected communities and the government.

**RECOMMENDATION:**

The City should consider developing and implementing outreach and educational campaigns to increase awareness by:

- Targeting outreach to disproportionately impacted neighborhoods and communities
- Identifying and collaborating with credible leaders/stakeholders within these communities.
- Develop outreach materials that are culturally sensitive and are clear, concise, and accessible to those with low literacy.

**5.9 – FINDING 9: THE CITY SHOULD COLLECT DATA ON GENERAL AND EQUITY APPLICANTS TO MONITOR AND MEASURE SUCCESS OF ITS EQUITY PROGRAM**

**RECOMMENDATION:**

The City should consider incorporating the following data metrics into the application, permitting and permit renewal process:

- Number of equity applicants to apply
  - Types of drug related offenses
  - Income status
  - Race
  - Ethnicity
  - Gender
  - Sexual identity
  - Residency status
  - Ownership structure
- Workforce characteristics
  - Total number of employees
  - Number of local employees
  - Employment Status
- Equity program-specific data
  - Number of applicants eligible for equity program
  - Number and types of services provided to equity applicants
  - Number of equity program applicants to receive licenses

**5.10 – FINDING 10: THE CITY SHOULD CONTINUE TO MONITOR AND UPDATE ITS EQUITY PROGRAM.**

**RECOMMENDATION:**

- Monitor and share progress of the Equity Program;
- Monitor and share trends in the emerging legal cannabis industry;
- Identify areas for course correction and/or unexpected consequences; and
- Demonstrate an ongoing commitment to data-informed decision-making and strategic planning to ensure Stockton's strong transition to a legal cannabis industry.

## APPENDICES

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### APPENDIX A – CITY OF STOCKTON CANNABIS EQUITY PROGRAM (SMC TITLE 16, CHAPTER 16.80, SECTION 16.80.195 (K))

1. Program Intent. The goal of the Equity Program is to promote equitable business ownership opportunities in the cannabis industry in order to decrease disparities in life outcomes for marginalized communities and address the disproportionate impacts of cannabis in adversely-impacted and lower income communities.
2. The City shall create an equity program to aid those persons from economically disadvantaged communities that experience high rates of poverty.
3. To qualify to be an equity applicant, greater than 50% of the ownership, as determined by equity sharing, for the permit must be:
  - a. A resident of Stockton AND
  - b. One of the following: be an MBE/WBE business, live in an Opportunity Zone, live in the SB 535 Disadvantaged Area, or live in a HUD designated area.
4. On an annual basis, the City of Stockton shall allow for the following numbers of new permits for cannabis businesses:
  - a. Two (2) Retail Commission Use Permit
  - b. Two (2) Cultivator Commission Use Permit
  - c. Two (2) Volatile Manufacturer Commission Use Permit
  - d. Two (2) Microbusiness Commission Use Permit
5. Permits shall be issued in the following manner:
  - a. Lottery System:
    - i. All applicants, equity and non-equity, shall annually submit an intent to apply with paperwork that proves that the applicant has identified property that meets all City locational criteria and zoning requirements. All applications for the year will be due by a date determined by the City.
    - ii. If the applicant wishes to be designated as an equity applicant, then they must submit paperwork establishing that over 50% of the business owners, as determined by equity sharing, meet the requirements as listed. All applicants wishing to be designated as an equity applicant must do so at the time of submitting an intent to apply for a permit.
    - iii. After closing the application process, the City will randomly select 1 (one) application from the general pool first for each of the following permit types: retail operator, cultivator operator and volatile manufacturer operator, and microbusiness. Then the City will randomly select 1 (one) application from the equity applicants

- for each of the following permit types: retail operator, cultivator operator, volatile manufacture operator, and microbusiness.
- iv. All applications must show continual good faith efforts to obtain the permit or else communicate that he/she is no longer pursuing the application.
  - v. If the City determines that the application is not progressing, the City shall notify the applicant of the intent to deny the application and the required next steps for the applicant to rectify. The applicant shall have 30 days from the date of the issuance of the notification to meet the next steps, or the application shall be denied.
  - vi. If an application is denied or the Applicant decides not to pursue the application, the City shall select at random from the pool of applicants from which the denied or abandoned application was selected.
  - vii. If an applicant is seeking to permit the following commercial cannabis types: non-volatile manufacture, distribution, testing, laboratory, and non-storefront retailer (delivery only); they will not be subject to the lottery system. There are no limitations on the number of land-use permits allowed for said commercial cannabis business types.

Exemptions. Testing laboratory, non-storefront retailer, distributor, and nonvolatile manufacturer permits shall not be subject to the lottery system as described in this title. There are no limitations on the number of land-use permits allowed for said commercial cannabis business types.