

## CONCURRENCE IN SENATE AMENDMENTS

AB 1111 (Pellerin)

As Amended August 15, 2024

2/3 vote

**SUMMARY**

Requires the Department of Cannabis Control (DCC), beginning January 1, 2026, to issue small producer event sales licenses authorizing retail sales at state temporary events.

**Senate Amendments**

- 1) Delay implementation to January 1, 2026.
- 2) Require the DCC to charge a licensing fee, as specified, for each small producer event sales license.
- 3) Require an applicant to have a valid *annual* state cultivation license and be in compliance with all applicable labor peace agreement requirements, as specified.
- 4) Prohibit an applicant, between January 1, 2025, and January 1, 2027, from cultivating more than 10,000 square feet of cannabis, inclusive of all licensed premises; 5,000 square feet of cannabis under a mixed-light tier 1 cultivation license or licenses, inclusive of all licensed premises; or 2,500 square feet of cannabis under a mixed-light tier 2 or indoor cultivation license or licenses, inclusive of all licensed premises.
- 5) Prohibit an applicant, on or after January 1, 2027, from cultivating more than one acre of cannabis, inclusive of all licensed premises; more than 22,000 square feet of cannabis under a mixed-light tier 1 cultivation license or licenses, inclusive of all licensed premises; or more than 5,000 square feet of cannabis under a mixed-light tier 2 or indoor cultivation license or licenses, inclusive of all licensed premises.
- 6) Authorizes a licensee who holds a valid state cultivation license to apply for a small producer event sales license before January 1, 2027, if that applicant is a local equity applicant or licensee and meets the specified cultivation size limitations.
- 7) Delete the cap on the number of days that a small producer event sales license is valid and impose an annual gross revenue cap of \$175,000. Authorize the DCC to increase the cap by regulation after reevaluating the cap in response to inflation and market conditions.
- 8) Authorize a small producer event sales licensee to reconcile unsold inventory of cannabis or cannabis products and return it to a licensed distributor, subject to specified conditions.
- 9) Specify that retail sales of cannabis or cannabis products by a small producer event sales licensee at a state temporary event shall be subject to the cannabis excise tax.
- 10) Clarify that nothing in the bill limits the authority of local jurisdictions to regulate state temporary events.

## COMMENTS

*Department of Cannabis Control.* Since July 1, 2021, the DCC has been the single entity responsible for administering and enforcing the majority of California's cannabis laws, collectively known as Medicinal and Adult Use Cannabis Regulation and Safety Act (MAUCRSA). The DCC is additionally responsible for licensing and regulating cannabis businesses, including the cultivation, manufacture, testing, transportation, labeling, and sale of cannabis and cannabis products in this state. DCC is authorized to issue state temporary event licenses where individuals 21 years of age or older may buy and consume cannabis.

*State Temporary Events.* Temporary events are analogous to trade fairs where cannabis businesses can showcase their products and services and consumers can buy and consume cannabis. Temporary events may be held over four consecutive days and are subject to the approval from the local jurisdiction in which the temporary event is proposed to be held. According to the DCC, 54% of cities and counties do not allow any type of cannabis business to operate within their jurisdictions.

Since its establishment in 2021, the DCC has issued 36 temporary event licenses—11 in 2021 and 25 in 2022. Over the last three years, the temporary events have been held in the cities of Adelanto, Oakland, Santa Rosa, San Francisco, Port Hueneme, and Turlock as well as Cathedral City. Temporary cannabis events have also been held in Stanislaus, Mendocino, Humboldt, and Riverside counties.

Retailers are the only licensees currently permitted to sell cannabis goods at temporary events and must follow specific rules related to the sale and consumption of cannabis on-site, including the display and packaging of cannabis goods, age restrictions on sales, daily sales limits, a prohibition on samples, and recording sales in the California Cannabis Track and Trace system. This bill would require the DCC to issue a small producer event sales license for use at state temporary events so that licensed small- and medium-size cultivators and equity applicants could sell their cannabis products directly to consumers. Importantly, small producer event sales licensees would be required to adhere to the same rules as retailers at temporary events and could be subject to disciplinary action by DCC for a violation.

*DCC Regulations Pertaining to Cultivators Participating in State Temporary Events.* In 2021, DCC compliance staff required licensed cultivators participating in the Emerald Cup (a licensed temporary event) to remove any cannabis products they had on display in their booths and were allowed only to display empty packaging. Partly in response to this incident, representatives of cannabis cultivation licensees sponsored AB 2691 (Wood) in 2022, which was substantially similar to this bill. In November 2022, the DCC finalized regulations that, as it relates to this bill, allow non-retail licensees (e.g., cultivators and manufacturers) to participate in temporary events and display cannabis or cannabis products, as specified.

*Cannabis Cultivation and Required Licenses.* A DCC-issued license is required to cultivate cannabis for commercial use. The type of cultivation license required depends on the size of the area where mature plants are grown and the type of lighting that is used. Outdoor licenses are required for cultivators who grow cannabis outdoors without artificial lighting on mature plants. Indoor licenses are required for cultivators who grow cannabis indoors in a permanent structure using at least 25 watts of artificial light per square foot. Mixed-light licenses are for cultivators who grow cannabis in a greenhouse, conservatory, hothouse, or other similar structure. Tier 1 mixed-light licenses are required when artificial lighting is used that produces up to six watts of

artificial light per square foot, and Tier 2 mixed-light licenses are required when artificial lighting is used that produces six to 25 watts of artificial light per square foot. Cultivation license types are further distinguished by the physical size of the cultivation area (e.g., 1 acre or 22,000 square feet). This bill would limit eligibility for a small producer event sales license based on an applicant's cultivation capacity.

### **According to the Author**

"California's small cannabis producers are world-renowned for their craft and quality, but lack access to scale-appropriate marketing activities that would be available if they were small producers of products like wine or coffee. As a result, communities of small producers across the state are struggling to compete against better-resourced competitors. Enabling small producers to sell their own products at licensed cannabis events would support the development of a craft cannabis market in California and facilitate sustainable economic development in cannabis producing regions."

### **Arguments in Support**

*The Origins Council, Humboldt County Growers Alliance, Big Sur Farmers Association, Nevada County Cannabis Alliance, Mendocino Cannabis Alliance, Trinity County Agriculture Alliance, Sonoma County Cannabis Alliance, Sweetleaf Health Equity, The Emerald Cup, Oaksterdam University, Hessel Farmers Grange, Medical Cannabis Resource, United Core Alliance, LeafWorks, Mendocino Producers Guild, San Jose Cannabis Equity Working Group, Covelo Cannabis Advocacy Group, Veterans Cannabis Group, Weed For Warriors, California State Grange, Long Beach Commercial Cannabis Council, Cannabis Equity Policy Council, Cannabis Travel Authority, and Cannacraft* collectively write in support:

Under the legal commercial cannabis framework, craft legacy producers have largely lost access to these opportunities to connect directly with consumers. Vertical integration is financially out of reach for nearly all independent small urban and rural producers, and CEQA and local land use regulation significantly limits the opportunity to pursue sales directly from the farm.

As a result, legacy producers have been denied access to their well-established and loyal medical cannabis consumer base, as well as the burgeoning recreational consumer base. In turn, consumer and patient access to farm-fresh cannabis and small batch products at retail have substantially diminished since legalization. Analytic labs are now reporting a significant and ongoing decline in the genetic biodiversity within the regulated market. As an annual plant, the loss of California's extraordinary cannabis genetics currently underway will be largely permanent.

Independent small producers typically lack access to marketing resources, such as sales teams and advertising budgets, that are available to larger and better-capitalized businesses. As a result, these legacy producers remain under-utilized in contributing to the public and consumer education efforts necessary to support a thriving legalized industry.

AB-1111 would provide a pathway for small producers to re-establish these consumer relationships, and in turn would help build a niche market for craft cannabis produced by California's world-renowned cannabis producers. Establishing a market for craft cannabis will help educate the public at large and drive consumers to these products at licensed retail facilities, building the foundation for the long-term market differentiation of California cannabis.

Additionally, AB-1111 would enable rural areas to utilize producer event sales as one component of larger efforts to promote tourism and destination marketing. Providing a pathway for consumers to interact directly with producers, in the region of origin itself, would enable legacy cannabis producing regions to establish and build a regional reputation, similar to other California producing regions renowned for their craft products, such as the Napa Valley American Viticultural Area.

### **Arguments in Opposition**

The *United Cannabis Business Association, Coachella Valley Cannabis Alliance, California Minority Alliance, Long Beach Collective Association, Social Equity LA, Social Equity Operators and Workers Association, San Francisco Cannabis Retailers Alliance, Silicone Valley Cannabis Alliance, and Angeles Emeralds* collectively write in opposition:

We regret to inform you that UCBA & our coalition of cannabis trade associations, representing the overwhelming majority of cannabis retailers, both equity and non-equity, as well as unionized retailers, formally oppose AB 1111. For the following reasons.

- 1) AB 1111 lacks the guidance & tools for enforcement of cannabis laws on farmer's market sales
- 2) The Enforcement Budget and oversight from the Department of Cannabis Control has been significantly lowered and the entire cannabis market has suffered because of it.
- 3) AB 1111 pushes local retail business owners further to the back of the line while waiting to enter a legal market.
- 4) AB1111 is estimated to bring negative economic benefit to cultivators (See chart p.3)
- 5) The ability to sell products as a cultivator, at a special event already exists.
- 6) AB 1111 undermines the existing supply chain by cutting out retailers.
- 7) AB 1111 threatens Union Jobs
- 8) AB 11111 does not expand legal market access
- 9) Ab 1111 only dilutes the existing legal markets

### **FISCAL COMMENTS**

According to the Senate Appropriations Committee, "Unknown significant ongoing costs, likely ranging into the high hundreds of thousands of dollars, for the Department of Cannabis Control (DCC) to create and implement the small producer temporary event license (Cannabis Control Fund). License fee revenue will offset DCC's administrative costs to some extent."

**VOTES:****ASM BUSINESS AND PROFESSIONS: 16-0-2**

**YES:** Berman, Flora, Alanis, Alvarez, Bonta, Chen, Dixon, Grayson, Jackson, Lee, Lowenthal, McCarty, McKinnor, Stephanie Nguyen, Joe Patterson, Ting

**ABS, ABST OR NV:** Gipson, Irwin

**ASM APPROPRIATIONS: 15-0-1**

**YES:** Holden, Megan Dahle, Bryan, Calderon, Wendy Carrillo, Dixon, Mike Fong, Hart, Lowenthal, Mathis, Papan, Pellerin, Sanchez, Weber, Ortega

**ABS, ABST OR NV:** Robert Rivas

**ASSEMBLY FLOOR: 74-1-5**

**YES:** Addis, Aguiar-Curry, Alanis, Alvarez, Arambula, Bains, Bauer-Kahan, Bennett, Berman, Boerner, Bonta, Bryan, Calderon, Juan Carrillo, Wendy Carrillo, Cervantes, Chen, Connolly, Megan Dahle, Davies, Dixon, Flora, Mike Fong, Vince Fong, Friedman, Gabriel, Gallagher, Garcia, Gipson, Grayson, Haney, Hart, Holden, Hoover, Jackson, Jones-Sawyer, Kalra, Lackey, Lee, Low, Lowenthal, Maienschein, Mathis, McCarty, McKinnor, Stephanie Nguyen, Ortega, Pacheco, Papan, Jim Patterson, Joe Patterson, Pellerin, Petrie-Norris, Quirk-Silva, Reyes, Luz Rivas, Robert Rivas, Rodriguez, Blanca Rubio, Sanchez, Santiago, Soria, Ting, Valencia, Villapudua, Waldron, Wallis, Ward, Weber, Wicks, Wilson, Wood, Zbur, Rendon

**NO:** Muratsuchi

**ABS, ABST OR NV:** Essayli, Irwin, Ramos, Schiavo, Ta

**SENATE FLOOR: 27-5-8**

**YES:** Allen, Archuleta, Ashby, Atkins, Becker, Blakespear, Caballero, Cortese, Dahle, Dodd, Durazo, Eggman, Grove, Jones, Laird, Limón, McGuire, Menjivar, Min, Newman, Niello, Padilla, Roth, Skinner, Stern, Umberg, Wilk

**NO:** Alvarado-Gil, Hurtado, Nguyen, Wahab, Wiener

**ABS, ABST OR NV:** Bradford, Glazer, Gonzalez, Ochoa Bogh, Portantino, Rubio, Seyarto, Smallwood-Cuevas

**UPDATED**

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