



City of Oceanside

Staff Report

File #: 25-867
Agenda Date: 6/18/2025
Agenda #: 34.

DATE: June 18, 2025

TO: Honorable Mayor and City Councilmembers

FROM: Development Services Department

TITLE: PROPOSED CANNABIS STOREFRONT RETAIL LICENSING PROGRAM

RECOMMENDATION

Staff recommends the City Council:

- 1) Introduce an ordinance amending the Oceanside City Code (OCC) to allow up to four cannabis storefront retail licenses;
- 2) Introduce an ordinance amending the Oceanside Zoning Ordinance (OZO) specifying which districts would allow storefront retailers;
- 3) Adopt a resolution establishing new cannabis business fees and endorsing the proposed application materials, procedures, and format; and,
- 4) Adopt a resolution granting license priority to the City's two existing operators.

BACKGROUND AND ANALYSIS

The City of Oceanside's Cannabis Program was established in 2018 when the City Council adopted Ordinance 18-R0199-1 to allow medical cannabis businesses, including nurseries, cultivation, manufacturing, distribution, and testing labs within City limits, subject to certain restrictions. Subsequently, on September 5, 2018, the City Council adopted Ordinance 18-OR0449-1 to allow no more than two medical cannabis non-storefront delivery licenses. On August 5, 2020, the City Council adopted Ordinance 20-OR0463-1 removing the medical-only restriction on cultivation licenses. The medical-only restriction was lifted for the balance of the allowable cannabis uses on June 16, 2021, thereby allowing businesses to grow, process, transport, or deliver cannabis for adult use.

To date, the City has issued 20 cannabis local licenses, of which three are currently active between two companies.

TABLE 1: SUMMARY OF LOCAL LICENSES

Business Type	# Licenses Allowed	# Licenses Issued	# Active Licenses
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Manufacturing	No limit	4	1
Distribution	No limit	5	1
Cultivation	12	10	0
Non-storefront Retail (Type 9)	2	1	1
Testing Lab	No limit	0	0
TOTAL	-	20	3

In November 2020, voters approved Measure M allowing the City to impose use taxes on cannabis businesses and setting the upper and lower limits for those tax rates. On December 16, 2020, the City Council approved Resolution 20-R0707-1 setting cannabis taxes as shown in Table 3 below. Staff is not recommending any adjustment to the current Measure M tax rates at this time.

TABLE 2: CANNABIS BUSINESS TAX RATES

Business Type	Established Tax Rate	Limits of Measure M
Retail	5%	2% - 6%
Manufacturing	2.5%	2% - 6%
Distribution	2%	2% - 6%
Cultivation	2%	0% - 3.5%
Testing Lab	No Tax	No Tax

On April 19, 2023, the City Council directed staff to develop a program allowing up to two licenses for storefront cannabis sales. Staff returned to the City Council on November 1, 2023 to present options for consideration and receive high-level Council direction on topics such as zoning, awarding process, and local preference. On May 22, 2024, the City Council approved two contracts for cannabis consulting services. Staff returned once more to the City Council on February 19, 2025 for final guidance on the program prior to proceeding with the necessary legislative actions. The City Council's direction to staff included the following items in regards to establishing a storefront cannabis retail license (Type 10) program:

- Issue up to four Type 10 (storefront retailer) licenses as follows:
 - Issue two Type 10 licenses to the City's existing operators, provided that they meet minimum qualifications of evaluation criteria; if the minimum qualifications are not met then these licenses will be open to the public
 - Issue two Type 10 licenses to the public
- Eliminate vacant Type 9 license

- Proceed with staff's recommendation regarding zoning criteria, with the provision that the City Council would have the ability to review any appeals
- Proceed with staff's recommendation for evaluation criteria with no loss of points to current operators for length in business and 20 points if operator dedicates at least one-percent of annual business revenue to support youth-oriented non-profits
- Proceed with a merit-based awarding process for all Type 10 licenses including current operators; the top eight applicants would go to a final selection panel made up of the City Manager, Assistant City Manager, Deputy City Manager, Finance Director, and Chief of Police utilizing a blind rank-choice voting system to break a tie; the City Clerk would evaluate the scoring and announce the winner at a public meeting. This option was selected in lieu of a lottery system.
- Proceed with staff's recommendation on cannabis business separation requirements
- Proceed with staff's recommendation on integrity and safeguards
- Proceed with staff's recommendation on tax structure

The proposed cannabis storefront retail licensing program package is consistent with the City Council's direction described above. Attachment 5 contains the February 19, 2025 City Council staff report and associated Action Minutes for reference.

At this meeting, staff proposes several related actions ("Storefront Package") for City Council consideration; approval of such actions would allow formal implementation of the City's proposed cannabis storefront retail licensing program. The proposed Storefront Package includes the following five items:

1. Amendment to OCC Chapter 7 Article XIII;
2. Amendments to OZO Articles 4, 11, 13, and 36;
3. Establishing official application materials, procedures, and format;
4. Establishing updated cannabis fees; and,
5. Grant license priority to the City's two existing operators.

1. Amendment to OCC Chapter 7 Article XIII

Various text modifications are proposed to OCC Chapter 7 to facilitate the City's ability to issue a maximum of four cannabis storefront retail licenses at a given time.

OCC Chapter 7 would also be modified to eliminate the existing vacant Type 9 (non-

storefront/delivery) license. Currently, one existing business holds a non-storefront retail license and would be able to continue to use the license until the business ceases operations, upon which the Type 9 license would be forfeited and eliminated altogether.

To prohibit the transfer of ownership interest in a local license prior to the business's fourth year of operation, staff proposes to add language to Chapter 7 that specifies exceptions requiring findings of "good cause" including death, bankruptcy, or receivership. No limits are proposed for transfers of ownership interest after the fourth year of operation of the license; however, each transfer would be reviewed to ensure compliance with current code requirements and local license criteria. The purpose of these transfer of ownership restrictions is to discourage a "bait and switch" scenario wherein one highly qualified ownership group receives a local license only to transfer ownership to a less qualified group soon after an initial license is granted

Deadlines to become operational would be inserted into the City Code to ensure that licensees establish their operations in a timely manner. As proposed, license holders would have 12 months from license issuance to receive the requisite conditional use permit (CUP). Businesses would then have to commence operations within 18 months from CUP issuance. Non-operational license holders for all cannabis license types would also be subject to these deadlines. The 12- or 18-month time limits, depending on whether or not a CUP has been secured, would commence on the date the ordinance becomes effective.

Operational standards for storefront retailers are largely absent from the proposed modifications due to the fact that the main operational concerns are sufficiently regulated by existing state and local codes. For instance, storefront retailers cannot operate between the hours of 10:00 p.m. and 6:00 a.m. pursuant to Title 4 of the California Code of Regulations (CCR) Section 15403. 4 CCR § 15044 requires that cannabis businesses have surveillance cameras covering each point of entry/exit. Storefront retailers also must have surveillance cameras covering both the employee and customer sides of the point-of-sale system. Local provisions, like requiring armed security guards 24/7, regulating odor control, and restricting certain signage exist within the City Code and are applicable to all cannabis businesses. If warranted, the City could impose other reasonable, context-based requirements for storefront retailers as conditions of approval on the required CUP.

2. Amendments to OZO Articles 4, 11, 13, and 36

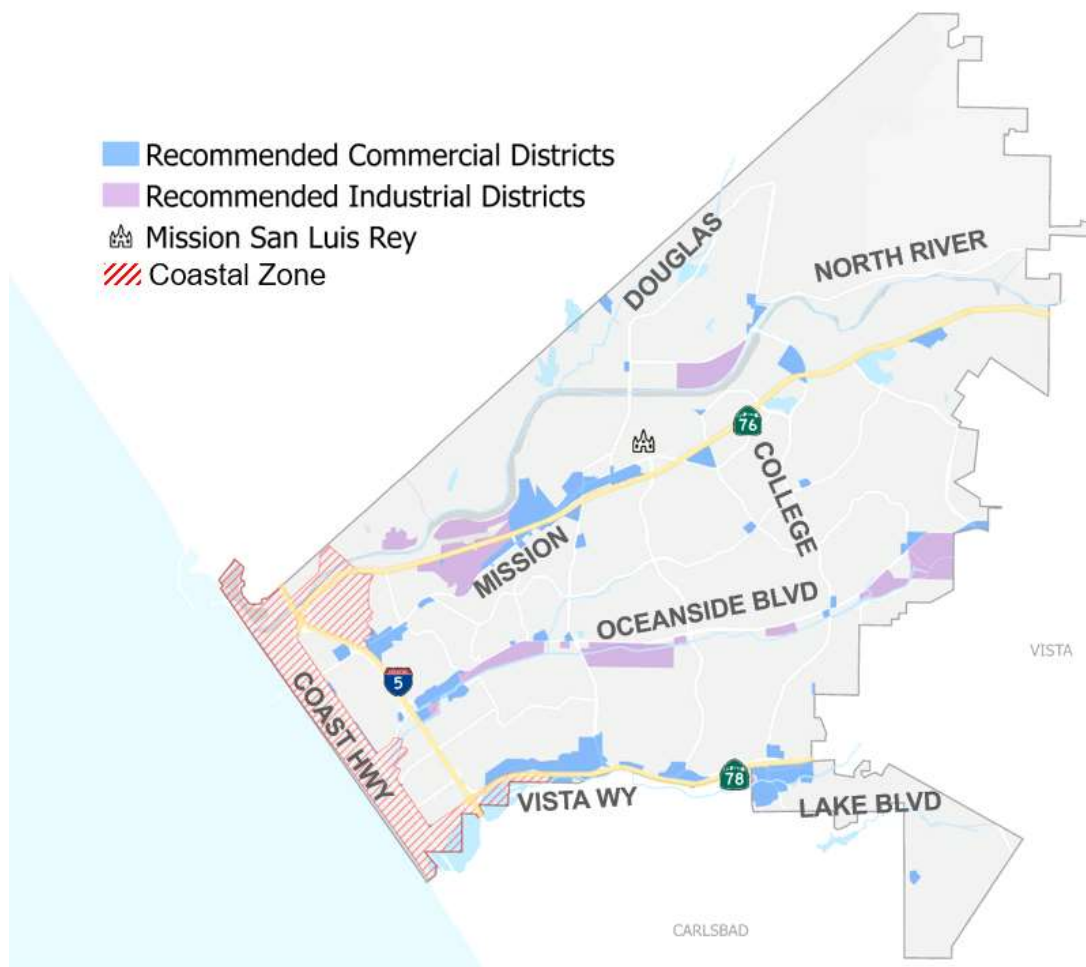
Text amendments to the existing Zoning Ordinance are proposed to allow cannabis storefront retailers in the following districts:

- Neighborhood Commercial (CN);
- Community Commercial (CC);
- General Commercial (CG);

- Limited Commercial (CL);
- Special Commercial - Highway Oriented (CS-HO);
- Special Commercial - Limited (CS-L);
- Limited Industrial (IL); and,
- General Industrial (IG).

Storefront retailers would not be allowed in the Coastal Zone, Downtown District, Mission San Luis Rey Commercial Village area, or in a location governed by a master plan. The map showing the allowable zoning districts are shown below in Exhibit 1. A web map of the allowable storefront retail cannabis zoning districts can be accessed via the City's GIS Data Hub at <https://gishub-oceanside.hub.arcgis.com/>.

Exhibit 1: Cannabis Storefront Retail Zoning Map



Furthermore, additional language is proposed to be included in OZO Article 36 to clarify that storefront retailers would be subject to the expanded regulated use separation requirements along with the other cannabis uses.

Drive-through, drive-up, and curbside delivery services would be prohibited in conjunction with a storefront retailer Citywide.

3. Establishing official application materials, procedures, and format

Staff recommends that the City Council officially adopt the cannabis storefront application materials, procedures, and format at a public hearing. The proposed application materials and procedures are provided in Attachment 8.

As proposed, applicants would start the process by submitting for a zoning verification letter using the application provided by the City. The letter would serve as confirmation that the chosen location is located in one of the allowable zoning districts. Applicants would also be required to note the site's distance to sensitive and regulated uses as determined by the locational criteria in the local license evaluation criteria and the required separations of OZO Article 36. Those who propose a location that is not in an allowable zoning district, or within disqualifying distances (e.g. within 1,000 feet of a high school) as set by the locational scoring criteria, would be informed that an application for that site would be rejected.

After receiving a zoning verification letter regarding the site's location, applicants would prepare a complete application package and submit it to the City during a window set by staff. The application must include documentation that states:

- The business has retained the site, through submission of a signed lease or prelease agreement;
- The property owner authorizes the business to submit an application for their site;
- The property owner will not allow multiple businesses to submit for their location;
- Owners in the business shall not have ownership interest in multiple applications; and,
- The business would indemnify the City from litigation.

Requiring the retention of a site prior to the issuance of a local license is a standard practice in this region. Of the nine municipalities in the region which allow storefront retail cannabis uses, six require the retention of a site during the application process, two do not have publicly accessible application procedures, and one issues ministerial licenses. Prohibiting a site from submitting multiple applications and prohibiting business owners from submitting multiple applications is an effort by the City to make the process fair to all applicants. Indemnification agreements are a standard practice to

protect a municipality from undue legal costs. Although common practice in the region, some California municipalities don't require identification of a specific site as part of the application scoring process and instead focus its scoring solely on the quality of the operator and their associated business plan. Under this scenario, the suitability of the business site would be evaluated as part of the requisite Conditional Use Permit process. If the City Council elects to not require the identification of a business site as part of the local license application rating process, staff would simply remove all related elements from the application materials and procedures.

Further documentation must demonstrate compliance with all applicable state and local requirements including, but not limited to, odor control, security, and the proper destruction of unsellable products.

Upon receipt of the application, the City's consultant would screen each submission for any missing documents. Those applications with missing documentation would be informed of the deficiency and allowed 30 days to cure their application.

The consultant would then score each application based on the evaluation criteria, as approved by the City Council. The proposed evaluation criteria would be comprised of three equal point sections: Business, Labor, and Employment Plan; Community and Employee Benefits; and Location. The full evaluation criteria can be found as an appendix to the Application Procedures in Attachment 8.

The proposed Business, Labor, and Employment Plan is intended to ensure the business has all requisite qualifications that make it likely to be successful upon award of a local license. In this section, applicants would demonstrate that:

- They have considerable knowledge of the industry;
- They have sufficient funding to open their business;
- Their business model predicts future solvency; and,
- Whether a majority of the ownership interest is held by either Oceanside residents or Oceanside business owners.

The Community and Employee Benefits section would guarantee that the community receives a tangible benefit in return for allowing storefronts within City limits. Community benefits can take many forms such as cash donations to honorable local causes or charities, volunteering time to improve the community, and educating the public or raising awareness to relevant issues. To remove as much subjectivity as possible, the evaluation criteria focus on proportional cash donations to local, youth-centered non-profits or City-led initiatives. These donations would be separate from the proceeds derived from the City's adopted cannabis tax, Measure M.

Beyond community benefits, applicants must demonstrate that their employees would receive commensurate benefits. This section would ensure employees are compensated “fairly” (i.e. above County minimum wage requirements). Applicants that propose to pay their employees at least 10 percent above minimum wage requirements would receive full points, whereas applicants which propose less would have points deducted. Applicants which propose to pay their employees minimum wage would be disqualified.

The Location section seeks to establish objective, distance-based criteria to certain regulated uses and sensitive land uses that warrant buffering from cannabis storefronts. Regulated uses, which could have a compounding effect on negative impacts when located near a cannabis storefront, include bars, liquor stores, and smoke shops. It should be noted that separation from other regulated uses would result in a minor point deduction from an application for a local license for a cannabis storefront retail license.

Article 36 of the Zoning Ordinance includes provisions that anticipate the difficulty of a regulated use to be located a minimum of 1,000 feet from another lawfully permitted regulated use. Those provisions give the City Council the ability to waive the locational requirements given the findings outlined in OZO Section 3605. Sensitive land uses include existing residences, schools, public parks and playgrounds, youth centers and libraries, childcare facilities, and churches. By creating a transparent, objective framework for evaluating the suitability of a location, staff aims to discourage applicants from attempting to locate in close proximity to other regulated uses or sensitive land uses.

Applications which fail to meet the minimum 90 percent score, submit false information, or submit an incomplete application would be eliminated. Of the remaining applications, the top eight would be allowed to proceed to interviews conducted by a panel of the City Manager, Assistant City Manager, Deputy City Manager, Director of Financial Services, and Chief of Police. If there is a tie for the eighth and final spot, all businesses with this tied score would be interviewed. Licenses would be awarded by the panel through an anonymous ranked-choice vote, administered by the City Clerk. The panel would be afforded complete discretion in their decisions. The panel’s decision could be appealed to the City Council pursuant to the existing cannabis license appeal process in OCC Section 7.129.

4. Establishing updated cannabis fees:

Updated fees are proposed alongside the updated process to ensure complete cost-recovery where feasible. The fees would be set as shown below, subject to annual Consumer Price Index (CPI) adjustments.

Zoning Verification Letter:.....\$2,064.94

Phase 1 - Completeness Screening:.....	\$5,527.65
Phase 2 - Application Review:.....	\$3,101.86
Phase 3 - City Manager Interview:.....	\$1,914.77
Phase 4 - City Manager Recommendation:.....	\$1,556.68
Non-operating Renewal Applications:.....	\$2,804.68
Operating Renewal Applications:.....	\$3,057.94
Annual Compliance Inspection:.....	\$2,604.94
Annual Financial Audit:.....	\$10,202.63
License Modification Request:.....	Varies
Appeal:.....	Varies
Background Check:.....	Per separate contract
Live Scan:.....	As established by the Police Department

The fee study conducted by the City's consultant is provided in Attachment 9.

5. Grant license priority to the City's two existing operators:

Of the four storefront retail cannabis licenses allowed, two would be set aside for the City's two existing cannabis business operators, provided they supply an application that meets the 90 percent minimum score threshold for local licenses. If the existing operators provide a qualifying application, the applications would be fast-tracked allowing them to bypass the City Manager panel interviews and proceed directly to the license issuance stage, resulting in faster application processing. Should one or both of the existing operators fail to submit an adequate application, the forfeited license(s) would be added to the remaining licenses, which would then be made available to other qualified applicants.

ENVIRONMENTAL DETERMINATION

The proposed ordinance, in and of itself would not occasion land development or any other material change to the environment. Projects subject to the amended zoning and municipal code provisions would be subject to separate California Environmental Quality Act (CEQA) review. Therefore, the proposed amendments are exempt from CEQA, in accordance with the provisions of the CEQA Guidelines Section 15061(b)(3), under the common-sense exemption that CEQA applies only to projects which have the potential for causing a significant effect on the environment.

FISCAL IMPACT

The storefront retail cannabis program is expected to result in \$28,362 in one-time program development costs, \$9,906 in annual ongoing support costs, and \$496,799 in business/application fees (e.g. application review fees, annual license renewal fees, compliance inspection fees, tax audit fees). Full cost recovery is anticipated for the business/application fees through the fees shown above, which would be charged directly to the business.

Cannabis retail is currently subject to a 5% tax on gross receipts, as allowed by Measure M which was passed by popular vote in November 2020. Per City Council direction on February 19, 2025, no modification is proposed to the rate. If the City wishes to increase or decrease the rate in the future, the rate can be changed by City Council action to a minimum of 2% and a maximum of 6%. Cannabis retail taxes in the region range from 4% to 10%. Staff would expect licensees of this program to commence operations no sooner than 2027, resulting in a small delay between incurring the non-coverable costs and generating tax revenue. Numerical revenue estimates are too variable to predict, though staff expects the revenues to significantly outweigh the non-coverable costs of the program.

COMMISSION OR COMMITTEE REPORT

On March 24, 2025, staff brought the proposed OZO and OCC amendments to the Planning Commission for a formal recommendation to the City Council as required by OZO Article 45. Included in the recommendation were amendments to OZO Article 4 (Use Classifications), Article 11 (Commercial Districts - Inland), Article 13 (Industrial Districts - Inland), Article 36 (Separation of Regulated Uses), and OCC Chapter 7 Article XIII (Cannabis Facilities). The chief purposes of the code amendments were to allow cannabis storefront retailers in specific commercial and industrial districts; cap the number of possible licenses at four; and institute various safeguards to protect the integrity of the cannabis program. The Planning Commission voted unanimously to recommend City Council approval of all proposed code amendments. The staff report for the March 24, Planning Commission meeting is included in Attachment 7.

The Planning Commission also expressed several sentiments pertaining to the proposed cannabis storefront retail package during the meeting, including a request that the City:

- 1) Explore a separate program allowing limited retail cannabis sales associated with an existing cannabis cultivation facility, similar to a winery, in South Morro Hills;
- 2) Relax the locational criteria in the local license evaluation criteria and regulated use separations of OZO Article 36; and
- 3) Remove the requirement for applicants to retain a location prior to receiving a local license.

Staff does not recommend inclusion of the Planning Commission's recommendations referenced above.

CITY ATTORNEY'S ANALYSIS

The City Council is authorized to hold a public hearing in this matter. Following the hearing, the City Council shall affirm, modify or reject the staff recommendation.

The City Attorney has reviewed and approved as to form the Zoning Ordinance and City Code amendments and Resolution consistent with the staff recommendation.

Prepared by: Dane Thompson Associate Planner

Reviewed by: Darlene Nicandro, Development Services Director

Submitted by: Jonathan Borrego, City Manager

ATTACHMENTS:

1. Staff Report
2. Ordinance to Amend OCC Chapter 7 Art. XIII
3. Ordinance to Amend OZO Art. 4, 11, 13, & 36
4. Resolution Adopting New and Revised Cannabis Fees & Endorsing Storefront Retail Application Materials, Procedures, and Format
5. February 19, 2025 City Council Staff Report
6. March 24, 2025 Planning Commission Recommendation Resolution
7. March 24, 2025 Planning Commission Recommendation Staff Report
8. Application Materials and Procedures
9. Fee Study
10. Resolution Granting Priority to Existing Cannabis Businesses