

This document is an extract of a larger publication.

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## **California Proposition 172**

California Proposition 172 (Prop 172) funds currently comprise 19% of Jail funding. These funds have been used since FY 1993-1994 and come from Proposition 172 revenues which are derived from a ½ cent State sales tax, designated for county public safety uses. By law, the Shasta County Auditor-Controller designates the use of this funding. According to the legislation, this funding must add to, rather than replace, existing funding sources. The dollar amount allocated to the Jail has remained unchanged but as a percent, the Jail's budget from Prop 172 has decreased from 24% to 19% over the last seven years.

## **Assembly Bill 109**

AB 109 funds currently provide 13% of Jail funding. AB 109 funds are California State funds given to each county in order to compensate for the additional costs to California counties. Some of these funds were used to open a detention level of the Jail which had been closed in 2009, due to lack of Shasta County General Funds. An additional AB 109 allocation was used to prevent closure of a detention level of the Jail in 2017, when the Sheriff was given a flat budget by the Shasta County Board of Supervisors which did not match increases in budgeted expenses. Both of these funding decisions were made after a request from the Sheriff to the Community Corrections Partnership Executive Committee, distributors of AB 109 funding in Shasta County. These budget requests were ultimately approved by the BOS. The use of AB 109 funds for the Jail did not create any new capacity post-AB 109. Instead, those funds were used to recover and retain capacity previously funded by the Shasta County General Fund.

The AB 109 unspent fund balances (sometimes called reserves) will be depleted by the end of FY 2020-2021, creating a 25% reduction in this revenue source. It is unknown at this time whether this reduction in revenue source will affect AB 109 funding available to the Jail since future budget allocations have not yet been decided.

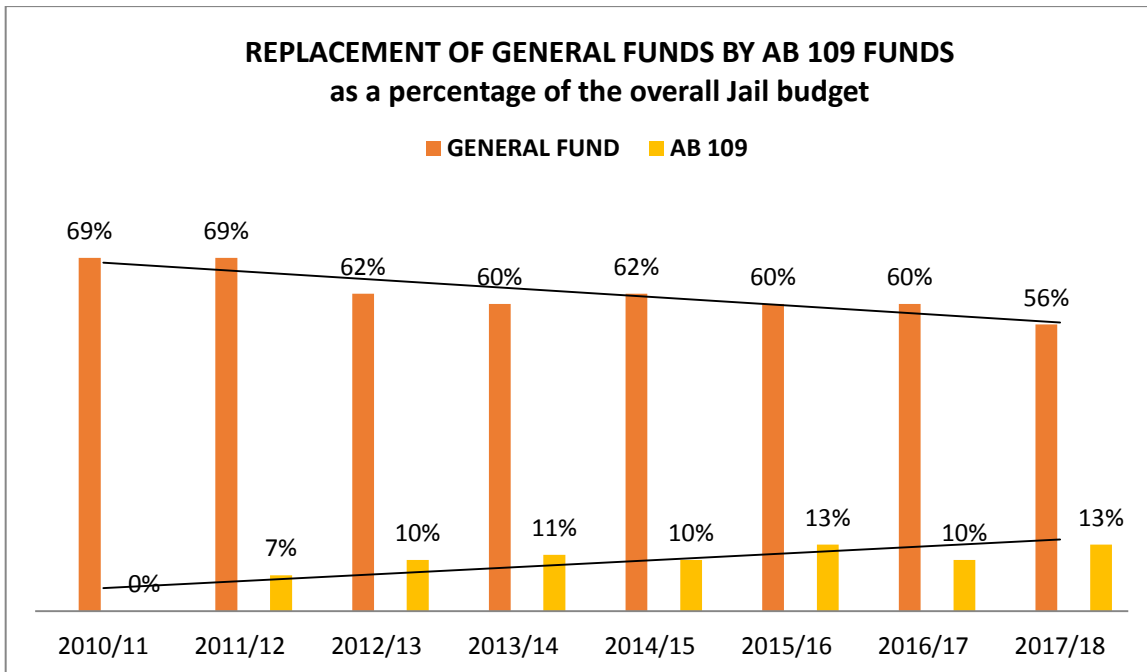
## **Challenges to Current Jail Funding**

The greatest challenge to Jail funding is that Shasta County revenues have not kept pace with the rise in operational Jail costs. Over the last ten years, Shasta County adopted budgets have increased by approximately 20%.

Meanwhile, over the same ten years, Jail personnel expenses (including overtime) have increased by 30% and Jail services and supplies expenses have increased by 50%. The Grand Jury did not investigate Jail budgets to assess why these increases have been significantly above inflationary levels.

In contrast to these sharply rising costs, the percentage of General Funds allocated to the Jail has steadily decreased. Over the last seven years, that percentage has gone from 69% in FY 2011/12 to 56% in FY 2017-2018. In other words, the BOS has approved increases in funding, but as a percentage of the total cost, the amount allocated has not kept up with rising costs. It is important to note that the General Fund dollar amounts allocated to the Jail have been consistent over time. But, as Jail budgets have continued to rise, the percentage of the General Fund allocated to the Jail's budget has not risen proportionately. The percentage of the Jail budget being supplied by

General Funds has decreased, while AB 109 funds have filled the resulting gap in funding. Together these sources now make up the 69% of the Jail budget previously supplied by just the General Fund, as shown Chart C.

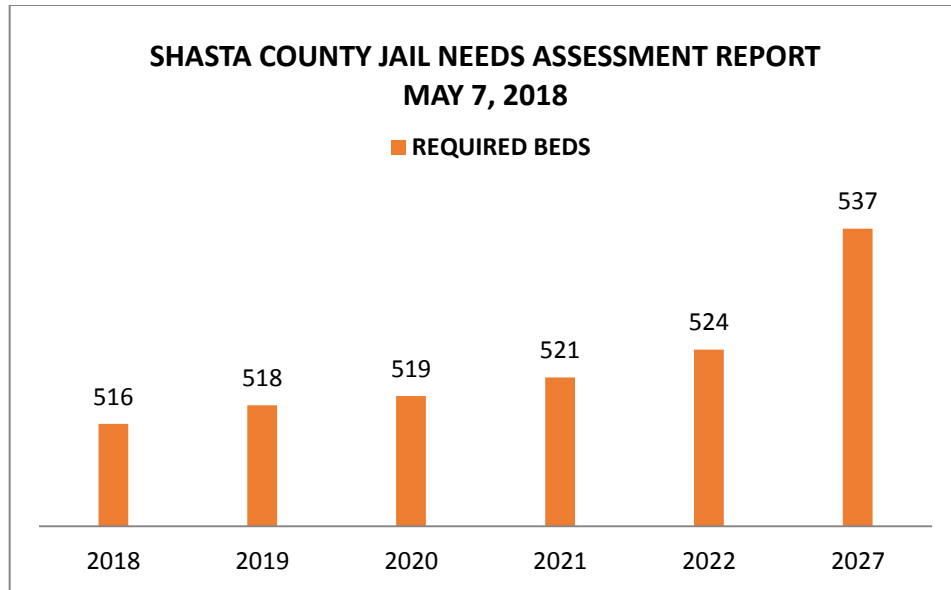


**Chart C**

No one interviewed indicated the existence of any type of long-term plan to prepare for the projected decrease in funding available to operate the Jail at current capacity or to provide funding for increased capacity at the Jail.

### **Shasta County Jail Capacity Needs**

In a presentation by the Shasta County Sheriff to the Board of Supervisors in February 2018, the Sheriff did not state the number of Jail beds currently needed. To determine this number, the Grand Jury reviewed the “Shasta County Jail Facilities Needs Assessment” (Jail Needs Assessment). The Jail Needs Assessment was first completed in 2013 and has been updated in 2018. The 2018 update to the Jail Needs Assessment shows a current Jail bed capacity shortage of 135 beds. It also shows this capacity increasing by only 21 more beds over the next ten years. Chart D illustrates the capacity increases needed.



**Chart D**

According to interviewees, the number of additional beds needed to meet current capacity needs at the Jail is 120. The Grand Jury notes that this does not match the 2018 Jail Needs Assessment provided by the Sheriff’s Office which, as previously stated, shows a deficit of 135 beds. Without knowing the number of Jail beds needed in the County, there is no way for the Board of Supervisors to identify operational funding for this capacity.

Not knowing the actual number needed, any capacity expansion plans are unlikely to match that need. Jail expansions and funding discussions must be driven by capacity need based on accurate modeling and projections and open communication between the BOS, Probation Department and the Sheriff’s Office.

The Grand Jury reviewed the “Public Safety Blueprint Study” (Blueprint), dated December 3, 2015. The Blueprint was a study paid for cooperatively by Shasta County and the City of Redding at a cost of \$155,000 to provide public safety solutions for the region. The Blueprint did not make an independent assessment of Jail capacity needs and instead agreed with Shasta County’s Jail Needs Assessment (2013):

*...the assessment...repeatedly stated the need for additional jail space based upon detailed population projection analysis. Our project team agrees with these projections after reviewing the complex methodology used.*

The Blueprint made the following recommendation:

*The County/City and related partners should develop a thorough criminal justice system master plan with comprehensive sections dedicated to custody services.*

## Jail Capacity Comparisons

The Grand Jury included all California counties with populations between 150,000-200,000 to compare the number of jail beds of Shasta County's Jail capacity relative to other counties of similar size. The results are highlighted in Table A.

| COUNTY        | POPULATION     | JAIL BEDS  | BEDS/100,000 |
|---------------|----------------|------------|--------------|
| KINGS         | 151,662        | 373        | 245          |
| <b>SHASTA</b> | <b>178,271</b> | <b>381</b> | <b>213</b>   |
| EL DORADO     | 188,399        | 461        | 244          |
| MADERA        | 158,894        | 560        | 352          |
| IMPERIAL      | 190,624        | 590        | 309          |

**Table A**

In Table A, the listing is in order of the total number of jail beds currently available (lowest to highest). In comparison with similarly-sized counties, Shasta County currently ranks last in the number of jail beds available per 100,000 in County population.

## Out-of-County Beds

According to the Shasta County Jail Needs Capacity Assessment 2018 update, a factor affecting capacity in the Jail is the use of out-of-county inmate beds. Shasta County, together with the Community Corrections Partnership, has allocated a total of \$300,000 in FY 2017-2018 to fund out-of-county jail beds. Currently, there are approximately 25 inmates placed in out-of-county beds. Use of out-of-county beds is less expensive than housing inmates in Shasta County. Qualification for out-of-county housing is based on sentencing, length of custody, medical needs and other factors. Only about 5% of Shasta County Jail inmates qualify for out-of-county custody.

## Funding for Increased Capacity

Significant efforts have been made by the Shasta County Sheriff's Office and the BOS to increase capacity at the Jail. Shasta County has applied for, and received, California State funds, first in 2012 and again in 2017. These funds were returned to the State because the BOS, in conjunction with Shasta County Chief Executive Officer (CEO) and the Shasta County Auditor-Controller (Auditor), determined there was not sufficient funding for operational costs for these facilities, once built. Lack of funding for operational costs is the consistent theme running throughout Shasta County's efforts for both Jail funding and Jail expansion. In March 2018, Shasta County administrators provided details of Jail expansion updates as directed by the BOS in February. Increased operational costs for the 60-bed expansion were estimated to be between \$500,000 and \$600,000 per year. The CEO recommended to the BOS that funding currently used to pay for a Shasta County Courthouse bond totaling \$530,000 per year, which will be repaid in 2023, be used to fund these ongoing operational costs after the bond is paid off. In the interval between the completion of the expansion and 2023, it was suggested that perhaps monies from the General Reserve Fund could be used to pay those added operational costs. On May 22, 2018,

the BOS approved the release of a request for proposals for construction of a 64-bed expansion. The BSCC, in a letter dated May 18, 2018, approved the plans for the expansion. It is expected to be completed by the end of 2018.

The BOS, along with County officials, are also publicly considering a renovation project to the existing Shasta County Courthouse courtrooms, attached to the current Jail, to place between 60-128 inmate beds in that space once it's vacated upon completion of the new Shasta County Courthouse. That renovation cost is estimated at between \$7 and \$9 million. This project would likely reduce the Shasta County reserve which, as of May 2018, is \$10.6 million. It is estimated that this project could begin three years from now. Interviews and a review of documents have yielded no estimate for the annual operational costs of this renovated facility, or how those costs would be funded.

## **FINDINGS**

- F1. Shasta County Jail capacity began declining after Crystal Creek Work Camp closed in 1992, despite continued need for capacity. Assembly Bill 109, Proposition 47 and inadequate increases in Shasta County revenues have only exacerbated a long-term capacity deficit at the Shasta County Jail.
- F2. Compared to five similarly-sized counties in California, Shasta County's ratio of jail beds to population is the lowest, indicating the need for additional Shasta County Jail bed capacity.
- F3. A comparison of Shasta County's Jail capacity prior to Assembly Bill 109 and current Jail capacity shows that Shasta County has fewer jail beds but a higher number of offenders' This indicates the need for additional Jail beds.
- F4. The percentage of the Shasta County Jail budget provided from the Shasta County General Fund has steadily declined over the last seven years while the Shasta County Jail's operating costs have risen. This has resulted in increased reliance on unsustainable sources of funding.
- F5. While revenue from Proposition 172 fluctuates, the amount allocated to the Shasta County Jail by the Shasta County Auditor-Controller has varied little over the last ten years, making this funding source relatively stable and predictable.
- F6. AB 109 has provided funding to the Shasta County Jail since 2011, however this funding is not a stable or predictable source due to projected budgetary decreases of 25% in the next two years.
- F7. Out-of-county beds increase Shasta County's incarceration capacity and do so at a lower cost than adding jail beds to the Shasta County Jail. Because of restrictions, it is a limited option that cannot be relied upon for contributing significantly to Shasta County inmate capacity.
- F8. The Shasta County Board of Supervisors has not publicly accepted assessment data that forecasts current and future capacity needs at the Jail. Without knowing that capacity, it is

impossible for the Shasta County Board of Supervisors to accurately develop capital cost and operating budgets for jail expansions.

- F9. The Shasta County Board of Supervisors has not developed a short or long-term plan to match Shasta County Jail capacity needs with identified operational funding sources, despite multiple assessments showing a critical jail bed shortage in Shasta County.
- F10. In 2012 and 2017, California State funds were available for expansion of the Shasta County Jail but were rejected due to the Shasta County Board of Supervisor's inability to fund operational costs of an expanded facility. This continues to leave Shasta County without adequate Jail capacity.

## **RECOMMENDATIONS**

The Grand Jury Recommends:

- R1. By September 30, 2018, the Shasta County Board of Supervisors, based on available or newly solicited information, agree on needed capacity at the Shasta County Jail both now and in five, 10, 15 and 20 years. These capacity needs should be reviewed and updated annually based on new legislation or other pertinent changes.
- R2. By March 31, 2019, the Shasta County Board of Supervisors adopt a 10-year funding plan for Shasta County Jail capacity expansion including capital and operational costs. This plan should be reviewed annually at a public meeting.
- R3. By March 31, 2019, the Shasta County Board of Supervisors identify on-going new sources of revenue to meet current and projected Jail capacity needs.

## **REQUEST FOR RESPONSES**

Pursuant to Penal Code section 933.05, the grand jury requests responses as follows:

From the following governing bodies (within 90 days):

- **Shasta County Board of Supervisors: F1, F2, F3, F4, F5, F6, F7, F8, F9, F10 and R1, R2, R3**

Pursuant to Penal Code Section 933.05, the following response/s is/are required:

From the following elected county officer/s (within 60 days):

**NONE**

## **INVITED RESPONSES**

**NONE**

## **GLOSSARY**

Operational Capacity – Number of inmates that can be accommodated based on a facility's staff, existing programs and services.

Rated Capacity – The number of beds or inmates assigned by a rating official to institutions within the jurisdiction

## **APPENDIX: LEGISLATION**

CALIFORNIA ASSEMBLY BILL 109 (2011) – Realignment AB 109 transfers responsibility for supervising certain kinds of felony offenders and state prison parolees from state prisons and state parole agents to county jails and probation officers. Counties receive funding through the AB 109 realignment funds based on their success in reducing recidivism. AB 109 has dedicated funding from a percentage of State sales tax and portion of the Vehicle License Fee.

CALIFORNIA PROPOSITION 47 (November 4, 2014) – The Safe Neighborhood and Schools Act recategorized some non-violent, non-sexual and non-serious felonies as misdemeanors unless the defendant has prior convictions for murder, rape, certain sex offenses, or certain gun crimes. Felony thresholds for previous theft crimes (i.e. shoplifting; grand theft; forgery, check fraud; writing a bad check; receiving stolen property) were raised to \$950.00. Personal use of most illegal drugs is also a misdemeanor. The law also allowed people already in prison for these crimes to apply for resentencing and those who were released to apply to change the category of their crime. No one was to be automatically released from prison. After successful petitions by inmates they were either released for time served or sent back to the counties to complete their sentences in jail and/or receive probation. The ability to petition for a change in an individual's crime category was to expire November 4, 2017 but was extended by legislation till November 4, 2022.

CALIFORNIA PROPOSITION 57 (November 8, 2016) – The Public Safety and Rehabilitation Act. This Proposition allows parole consideration for non-violent felons, changes policies on juvenile prosecution and authorizes sentence credit for rehabilitation, good behavior and education. The California voters passed this proposition to enhance public safety and to stop revolving door of crime by emphasizing rehabilitation. This bill allowed for earlier than anticipated release of some prisoners. This legislation did not distinguish legally between violent and non-violent felony offenders. Only violent felons can go to prison for their full prison term. If it is considered a non-violent felony, The California Department of Corrections can grant them a parole date after only serving the base term of their offense. The County District Attorney's offices must check penal codes to distinguish violent from non-violent offenses. For a list of violent and non-violent felonies refer to:

[https://www.co.shasta.ca.us/index/da\\_index/proposition-57](https://www.co.shasta.ca.us/index/da_index/proposition-57)

CALIFORNIA PROPOSITION 172 (November 2, 1993) – In 1992 facing serious budget deficits the California Legislature and Governor Wilson instructed the county auditors to shift allocation of local property tax from local government to Educational Revenue Funds. As a partial mitigation to the counties and cities now decreased revenue source, Proposition 172

(statewide half-cent sales tax increase) was proposed by the California Legislature and Governor Wilson. The Local Public Safety Protection and Improvement Act of 1993 was passed by 58% of the voters. The Act established a permanent source of revenue. Public safety services include, but are limited to sheriffs, police, fire protection county district attorneys, county corrections and ocean lifeguards and does not include courts. Each city or county is required to deposit revenue from Proposition 172 in a Public Safety Augmentation Fund to be allocated by the County Auditor to the cities and county. Maintenance of Effort (MOE) language was adopted by Legislature to insure local jurisdictions were unable to supplant their general fund contribution to public safety services with Proposition 172 funds.

## **DISCLAIMERS**

When there is a perception of a conflict of interest involving a member of the Grand Jury, that member has been required to recuse from any aspect of the investigation involving such a conflict and from voting on the acceptance of or rejection of that report. One member of the Grand Jury recused from this report.

Reports issued by the Grand Jury do not identify individuals interviewed. Penal Code § 929 requires that reports of the Grand Jury not contain the name of any person or facts leading to the identity of any person who provides information to the Grand Jury.

**Released June 4, 2018**

**2017 - 2018 Shasta County Grand Jury**  
**Green Rush...Up in Smoke?**  
**Legal Cannabis in the City of Shasta Lake**



## **SUMMARY**

In August 2017, the City of Shasta Lake became the first city in Shasta County to sanction the legal recreational cannabis industry to operate within the City limits. Measure A was put to the voters to allow the recreational cannabis-related industry to start effective January 1, 2018. The 2017-2018 Shasta County Grand Jury investigated the circumstances surrounding the planning, implementation and follow-up of Measure A. The Grand Jury sought to determine what planning took place prior to the vote, and what steps were taken following passage of the measure.

In its rush to become the first Shasta County city to permit recreational cannabis businesses, the City of Shasta Lake ineffectively planned for the increase of cannabis businesses in the City. This resulted in multiple unexpected changes in planning and permitting procedures based upon infrastructure demands, which was exacerbated when the City chose to zone the Shasta Gateway Industrial Park for cannabis-related businesses.

Additionally, all planned development should stop in the Shasta Gateway Industrial Park until the City of Shasta Lake adds a secondary access road to meet its legal and safety obligations. Further, the City of Shasta Lake should increase code enforcement staffing and create safe and effective methods of collecting and transporting the cash it collects.

The Shasta County Grand Jury recommends the City of Shasta Lake complete a secondary access road into the Shasta Gateway Industrial Park and immediately institute safeguards for the handling, accounting and transportation of cash.

The Shasta County Grand Jury focused on six key areas and how the City of Shasta Lake would handle:

- Laws and regulations that should be passed to oversee the new businesses
- The plans for law enforcement needs
- The proposed collecting and safeguarding of cannabis-related tax monies
- Preventing misuse of cash transaction funds by City officials and employees
- Planned additional city services for the incoming businesses

- The conflict between state and federal law relating to the cannabis industry.

## **BACKGROUND**

On November 8, 2016, the voters of California passed Proposition 64, the Adult Use of Marijuana Act. Subsequently, Senate Bill 94 (2018) combined medical and recreational adult marijuana use with one set of regulations. The term marijuana was replaced with cannabis as the legal term. The California Legislature established rules, procedures and laws to govern the industry, but authorized California counties and cities to establish their own laws and regulations governing the manufacturing, distribution, retail sales and use of recreational cannabis. The cities and counties could establish more stringent and restrictive codes and ordinances but not less than those mandated by State laws and regulations.

Although California voters approved recreational cannabis, it remains a Schedule 1 drug under the Federal Controlled Substances Act and is considered without any medical benefit under federal statutes. This designation creates a conflict between state and federal law. While California cannabis businesses may operate without fear of criminal prosecution from State law enforcement, federal law enforcement can enforce and prosecute those same businesses under federal statutes. In addition, as a federally illicit activity, cannabis businesses cannot utilize federally-insured banking services. As such, all cannabis interactions must be conducted as cash only transactions. The government agencies receiving cannabis industry taxes and fees accept thousands of dollars in cash, creating safety and logistics issues for the collecting agencies, as well as potential for misuse of cash transaction funds.

## **METHODOLOGY**

### **The Grand Jury interviewed:**

- City of Shasta Lake Administrative personnel
- City of Shasta Lake Council members
- SCI Consulting personnel
- City of Shasta Lake Planning Commission members
- Shasta County Treasurer-Tax Collector-Public Administrator Office personnel
- Shasta County Sheriff's Office personnel
- Shasta Lake Fire Protection District Board of Directors
- Shasta Lake Fire Protection District personnel.

### **The Grand Jury reviewed:**

#### *Legislation:*

- Assembly Bills 266 (2015) and 243 (2015)
- City of Shasta Lake Ballot Measure A (2017)
- Proposition 64 (November 8, 2016)
- Senate Bills 94 (2018), 643 (2015) and 1262 (2014).

*Correspondence:*

- Letter from Shasta Dam Area Public Utility District, April 21, 1993
- Response letter from Shasta Lake Fire Protection District dated April 21, 1993 indicating no lot splits, parcel maps, etc. will be allowed until completion of the secondary access road
- Letter from Shasta Lake Fire Protection District to the City of Shasta Lake, stating no further development can occur until the secondary access road is complete, September 23, 1993
- Letter from the City of Shasta Lake, requesting requirements of a secondary access road, October 26, 2015
- Letter from Shasta Lake Fire Protection District, responding to request for secondary road requirements, December 16, 2015
- Letter from Shasta Dam Area Public Utility District outlining what it would cost to do an environmental impact report permitting proposal, November 5, 1991
- Letter from Shasta Lake Fire Prevention District to the City of Shasta Lake Planning Department stating no further development can occur until the secondary access road is built, May 23, 2017
- Letter from Shasta Lake Fire Protection District to the City of Shasta Lake Planning Department referring to prior correspondence prohibiting any further development, including Lot 14, until the secondary road is completed, July 11, 2017
- Email RE\_Lot 14 Approval JK,JD,FM 8-30-17, indicating the City of Shasta Lake would not enforce the directive in the letters regarding the secondary access road, from the Shasta Lake Fire Protection District, May 23, 2017 and July 11, 2017
- Letter from the City of Shasta Lake, to existing and proposed cannabis permit holders regarding water, wastewater and electric demands, February 12, 2018
- Letter from City of Shasta Lake to Western Area Power Administration, requesting a study of a new substation, February 21, 2018.

*City of Shasta Lake Documents:*

- Amendment to City of Shasta Lake Municipal Code Title 5 and replaced with 5.05
- Amendment to City of Shasta Lake Municipal Code Title 17 changing the Land Use Table
- Cannabis Business Application Packets
- “Cannabis Business Standard Requirements WWTP Final”
- City Manager Letter and Utility Information February 12, 2018
- City of Shasta Lake Initial Study Environmental Checklist Form Project Rezone Z 07-03
- City of Shasta Lake Municipal Code-Zoning Chapter 17.10.20 Land Use Table
- City of Shasta Lake Planning Commission Meeting Staff Report, September 20, 2007
- Commercial Cannabis Land-Use Map March 22, 2017
- Contract between City of Shasta Lake and SCI Consulting
- Contract between the City of Shasta Lake and the Shasta County Sheriff Department
- Draft of Negative Declaration Z 07-03, Shasta Gateway Industrial Park August 2007

- Existing City of Shasta Lake procedures and regulations related to Measure A
- General Industrial Use Permits Chapter 17.58
- Informal cash handling procedure of marijuana deposits received from a COSL employee
- International Fire Code Chapter 5, Section 503
- Non-Volatile, Semi-Volatile, or Volatile: Redefining Volatile for Volatile Organic Compounds Uyen-Uyen T. Vo, Michael P. Morris
- Ordinance 97-1 Uniform Fire Code, Section 902.2.2 (c)(d)
- Ordinance CC-17-86, Tract 1777, Shasta Dam Area Public Utility District, section 14 requiring access/egress route, date unknown
- Resolution CC-16-107, December 20, 2016, agreement with SCI
- Resolution CC-17-73, October 17, 2017, agreement with SCI
- Resolution Number PC 07-09, September 20, 2007
- Rezone Z 07-03 creating a Planned Development Zone District to Shasta Gateway Industrial Park
- Shasta Area Safety Communications Agency (SHASCOM) logs of calls for service at cannabis collectives (2017)
- Shasta Lake Fire Protection District Comments on Lot Splits-Second Access
- South Coast Air Quality Management District Abstract
- Statement of Conditions Tract 1777 Shasta Dam Area Public Utility District
- Statement of Conditions Use Permit 47-92 Shasta Dam Area Public Utility District
- Summary Report County of Shasta Official Final Report, August 29, 2017
- Use Permit 47-92 Shasta Dam Area Public Utilities District, Statement of Conditions, March 12, 1992
- Water and Wastewater Capacity Form
- Water and Wastewater Capacity Information Required for Cannabis Rev. 2.12.18.

*Professional Publications:*

- California Public Utilities Commission Policy and Planning Division: “Energy Impacts of Cannabis Cultivation Workshop Report and Staff Recommendations”, April 20, 2017
- League of California Cities Online Ethics Course
- U.S. Department of Justice Cole Memo, February 14, 2014
- *State and Local Government Guide Series*
- Book: *Highly Competent Cashiers*
- Book: *Cash Management and Investments Self-Paced Training Program*

*Media Articles and Televised Shows:*

- LIVE: Redding City Council talks commercial pot, October 17, 2017
- “UPDATE: Redding to Craft Rules Allowing Commercial Pot”, October 17, 2017 Sean Longoria, Record Searchlight
- The Profit: “The Profit in Marijuana Country”, aired January 8, 2018 on CNBC

- Weediquette: “Going Legit”, April 20, 2018, originally aired September 28, 2016 on VICE.

**The Grand Jury researched:**

- “An Overview Of California’s New (And Improved) Medical Marijuana Laws”, <https://abovethelaw.com/2015/10/an-overview-of-californias-new-and-improved-medical-marijuana-laws/>
- Bureau of Cannabis Control <http://bcc.ca.gov/>
- California Cannabis Portal <https://cannabis.ca.gov/>
- “CBD: Marijuana Compound Has No High, But Relieves Pain”: [https://www.tokeofthetown.com/2011/10/cbd\\_marijuana\\_compound\\_has\\_no\\_high\\_but\\_believes\\_pa.php/](https://www.tokeofthetown.com/2011/10/cbd_marijuana_compound_has_no_high_but_believes_pa.php/)
- CEQAnet Database Search [www.ceqanet.ca.gov](http://www.ceqanet.ca.gov)
- California Environmental Quality Act - California State Lands Commission: [slc.ca.gov](http://slc.ca.gov)
- California Environmental Quality Act (CEQA, 2014, Statute and Guidelines): [http://resources.ca.gov/ceqa/docs/2014\\_CEQA\\_Statutes\\_and\\_Guidelines.pdf](http://resources.ca.gov/ceqa/docs/2014_CEQA_Statutes_and_Guidelines.pdf)
- “Harvesting Energy Savings in Cannabis Cultivation Facilities Quick Wins for Cultivators and Utilities”, September 11, 2015, David Podorson: <https://www.esource.com/TAS-F-18/CannabisCultivation>
- “Is Your Utility Ready for Commercial Marijuana Growers? Pot Legalization and the Grid”, November 18, 2016, Bryan Jungers: <https://www.esource.com/Blog/ESource/11-18-16-Marijuana-Grid>
- California Legislative Information, AB-903 California Marijuana Tax Fund: California Highway Patrol: [http://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill\\_id=201720180AB903](http://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=201720180AB903)
- CalCannabis August 16 survey results: <https://www.cdfa.ca.gov/is/mccp/news/36>
- League of California Cities Proposition 64: Priorities for Finance Officers, December 14, 2017 <https://www.cacities.org/>
- Bureau of Cannabis Control Licensing: <http://www.bmcr.ca.gov/meetings/index.shtml>
- California Department of Food and Agriculture Licenses: Cultivation <https://www.cdfa.ca.gov/is/mccp>
- California Department of Public Health Licenses: Manufacturing: <https://www.cdph.ca.gov/>
- Programs/CEH/DFDCS/Pages/OMCS.aspx <http://www.cdtfa.ca.gov/>
- Rocky Mountain HIDTA (High-Intensity Drug Trafficking Areas): <https://www.ncjrs.gov/ondcppubs/publications/enforce/hidta2001/rocky-fs.html>
- Implementing Prop 64: New White Paper Sheds Light on Challenges of State’s New Marijuana Law: <https://law.stanford.edu/2017/04/17/>
- San Diego County Office of the Public Defender Proposition 64 (Marijuana Offenses) FAQ [https://www.sandiegocounty.gov/content/sdc/public\\_defender/prop\\_64\\_faq.html](https://www.sandiegocounty.gov/content/sdc/public_defender/prop_64_faq.html)
- City of San Diego Office of the City Attorney Proposition 64 Funds Audit September 30, 2009 [https://www.sandiego.gov/sites/default/files/proposition\\_64\\_report.pdf](https://www.sandiego.gov/sites/default/files/proposition_64_report.pdf)

- California Proposition 64, Marijuana Legalization (2016): [https://ballotpedia.org/California\\_Proposition\\_64,\\_Marijuana\\_Legalization\\_\(2016\)](https://ballotpedia.org/California_Proposition_64,_Marijuana_Legalization_(2016))
- The Cannifornian: [www.thecannifornian.com](http://www.thecannifornian.com)
- “Bay Area Cities, Counties Confront Legal Pot”: <https://www.sfchronicle.com/bayarea/article/Bay-Area-cities-counties-confront-legal-pot-11264649.php>
- Prop. 64 and Responsible Adult Use of Marijuana: <http://publichealth.lacounty.gov/sapc/Prop64/Proposition64.htm>
- “What Cities Should Know About Proposition 64, the Adult Use of Marijuana Act”, Western City, February 2017: [www.cacities.org](http://www.cacities.org)
- California Proposition 64, Marijuana Legalization Act (2016): [https://ballotpedia.org/California\\_Proposition\\_64,\\_Marijuana\\_Legalization\\_\(2016\)](https://ballotpedia.org/California_Proposition_64,_Marijuana_Legalization_(2016))
- Bureau of Cannabis Control: <http://bcc.ca.gov/>
- California Cannabis Portal: <https://cannabis.ca.gov/>
- Above the Law: “An: Overview of California’s New (And Improved) Medical Marijuana Laws”: <https://abovethelaw.com/2015/10/an-overview-of-californias-new-and-improved-medical-marijuana-laws/>
- Decriminalization of non-medical cannabis in the United States: [https://en.wikipedia.org/wiki/Decriminalization\\_of\\_non-medical\\_cannabis\\_in\\_the\\_United\\_States](https://en.wikipedia.org/wiki/Decriminalization_of_non-medical_cannabis_in_the_United_States)
- U.S. Marijuana Laws: Laws for each state: <http://www.usmarijuanalaws.com/>
- California Marijuana Policy: [http://calmarijuanapolicy.org/ordinances?f\[0\]=field\\_cultivation%3A1054&f\[1\]=field\\_agency%3A587](http://calmarijuanapolicy.org/ordinances?f[0]=field_cultivation%3A1054&f[1]=field_agency%3A587)
- California Building Standards Commission: <http://www.bsc.ca.gov/Codes.aspx>
- Record Searchlight August 31, 2017 <http://reddingne.ws/2gmzkaT>
- California Department of Food and Agriculture: Cal Cannabis Cultivation Licensing, November 2017: [calcannabis.cdfa.ca.gov](http://calcannabis.cdfa.ca.gov)
- NFPA 1, 2018 “Sneak Peek: New Requirements for Marijuana Growing, Processing, and Extraction Facilities”: <http://community.nfpa.org/community/nfpa-today/blog/2017/05/12/nfpa-1-2018-sneak-peek>
- California Legislative Information Health and Safety Code [http://leginfo.ca.gov/faces/codes\\_displayText.xhtml?lawCode=HSC&division=20.&title=&part=&chapter](http://leginfo.ca.gov/faces/codes_displayText.xhtml?lawCode=HSC&division=20.&title=&part=&chapter)
- National Institute on Drug Abuse: Advancing Addiction Science: <https://www.drugabuse.gov/publications/research-reports/marijuana/how-does-marijuana-use-affect-school-work-social-life>
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- “What You Need to Know About Cannabis Extraction Methods”, date unknown, Mark Sanders: <https://www.myhydrolife.com/what-you-need-to-know-about-cannabis-extraction-methods/2/1657>
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- “What is Closed-Loop Extraction?”: <https://www.massroots.com>
- Closed-Loop Extraction: <https://www.myhydrolife.com/definition/1291/closed-loop-extraction>
- California Natural Resources Agency: <http://resources.ca.gov/ceqa/more/faq.html>
- Effects of legalization of recreational cannabis in Colorado, Washington, and Oregon (web search of multiple sources)
- Efforts of other governmental jurisdictions to implement Proposition 64 (web search of multiple sources).

### **The Grand Jury visited:**

- Cannabis dispensaries (formerly medical cannabis dispensaries) in the City of Shasta Lake
- City of Shasta Lake Administrative Offices
- Shasta County Planning Division office
- Shasta County Treasurer-Tax Collector-Public Administrator’s Office
- Shasta Gateway Business Park.

### **The Grand Jury attended:**

- City of Shasta Lake City Council meetings (2017-2018)
- “Marijuana: The California Conundrum”, 2017 California Grand Jury Association Annual Conference (October 27, 2017), keynote speaker Mendocino District Attorney David Eyster
- Shasta Lake Planning Commission meetings (2017-2018).

## **DISCUSSION**

### **Proposition 64 in the City of Shasta Lake**

On August 29, 2017, in response to the new procedures outlined in Proposition 64, the City of Shasta Lake (COSL) held a special election and the voters passed Measure A, the “Commercial Cannabis Business Tax”. The measure legalized the budding cannabis industry from propagation to sales and allows cannabis businesses to operate within the City. The measure and the accompanying ordinance (CC-17 August 29, 2017) set specific zoning requirements, tax methods, permitting procedures, and licensing requirements. The measure allowed various portions of the City, including the entire Shasta Gateway Industrial Park (SGIP), to be zoned for cannabis-related businesses.

The Grand Jury investigated the existing and developing cannabis industry in the City of Shasta Lake. Recognizing the complex and multifaceted issues surrounding Proposition 64 and the City's Measure A, the Grand Jury investigation focused on six variables:

1. **Ordinances and regulations passed to oversee the new businesses:** With the passage of Measure A, the City implemented a series of new ordinances to regulate the cannabis industry. Those ordinances cover business zoning, licenses, permits and taxes.
2. **Plans for law enforcement needs:** The Grand Jury sought to determine what law enforcement issues City law enforcement had encountered, and what they anticipated. This issue was particularly critical in that Measure A specifically creates revenues to provide funding for law enforcement/code enforcement services.
3. **The proposed collecting and safeguarding of cannabis-related tax monies:** Measure A created several new tax categories for the cannabis industry. The Grand Jury examined how those taxes would be collected and utilized to support designated City services. Because of federal banking regulations, tax collection is mainly done in cash. The procedures for cash handling were examined. Included in that examination was the security of the cash and receipts. The safety of personnel handling and transporting cash was also investigated.
4. **Preventing the misuse of cannabis related transactions by City officials and employees:** The Grand Jury investigated what steps the City had taken to guard against the potential misuse of cannabis related transactions.
5. **Planned additional City infrastructure and services for the incoming businesses:** The Grand Jury examined select City services to determine the extent to which the cannabis industry would impact demand on City services.
6. **The conflict between state and federal law:** With the passage of Proposition 64, California approved legal recreational cannabis use, putting the State laws at odds with the federal laws. The Grand Jury examined how the City of Shasta Lake dealt with that conflict.



### **Ordinances and Procedures – Regulating the Green Rush**

Shortly after passage of Proposition 64, the COSL officials began to examine the advantages of allowing legal cannabis businesses to operate in the City. The exploratory process included attendance at cannabis conferences and site visits to other California cities that authorized and

adopted ordinances relating to cannabis businesses. In addition, City officials created an ad hoc group to discuss whether to expand legal cannabis in the COSL. That ad hoc group was made up of two City Council members, City officials, potential stakeholders, and cannabis industry representatives. The City entered into a contract with SCI Consulting Group (SCI), a public financing consulting service to assist the City in drafting Measure A and the accompanying city ordinance. Following the passage of Measure A, the City entered into an agreement with SCI to conduct monitoring services for incoming cannabis-related business applicants and for continuing oversight of those businesses as they begin to function within the City.

The ordinances approved by the City of Shasta Lake, concurrent with Measure A, set up a series of new taxes for cannabis businesses. Some of those taxes concerned cultivation, cannabis extracts (oils), distribution and sales. In addition, ordinances were set in place to establish expanded zoning for new cannabis businesses in the City. It should be noted that, during the course of this investigation, the City of Shasta Lake City Council changed and/or amended the ordinances. One amendment involved lowering tax rates for cannabis businesses. City officials related that the reason for this change was to allow the legal cannabis businesses to fairly compete with black market operators.

### **Plans for Law Enforcement Needs – A New Paradigm?**

The COSL has contracted for law enforcement services with the Shasta County Sheriff's Office (SCSO) since the City incorporated in 1992. The law enforcement contract is currently set at \$2.5 million a year, approximately 26% of the City's entire budget expenditures. The contract is reviewed annually and budgeted every two years. Currently, the SCSO assigns a station commander, supervisors, and patrol staff to provide full-time law enforcement services (24/7) to the COSL.

One area of concern regarding potential future law enforcement needs is the cannabis black market. According to the official Voter Information Pamphlet, the "Argument for Measure A", written by the City of Shasta Lake Mayor Rick Kern, Vice Mayor Larry Farr, and City Manager John Duckett, one of the goals listed is to "Reduce and eliminate the black market for cannabis." This illegal market attracts criminal enterprises that circumvent existing legitimate businesses, laws, and regulations. Currently, the City of Shasta Lake has no written plans, ordinances or procedures to address the black market as stated in the Voter Information Pamphlet.

While there is no history of law enforcement calls related to the medical cannabis industry in COSL which would necessitate increased law enforcement services, this does not preclude the potential of increased criminal activity due to the expansion of recreational cannabis businesses. With the addition of cultivation, extraction, and distribution, the potential for law enforcement services will likely increase. Colorado, the first state to allow cannabis to be sold to anyone over 21, has a comprehensive data base documenting increased illegal activity, primarily driving-under-the-influence and blackmarket cannabis. The result is an extra strain on law enforcement. Interviews and document research has revealed little planning between the COSL and SCSO regarding future law enforcement needs due to the expanding recreational cannabis industry

The citizens of the COSL voted to approve Measure A which states:

*CITY OF SHASTA LAKE COMMERCIAL CANNABIS BUSINESS TAX. Shall an ordinance be adopted imposing a cannabis business tax...to provide funding for law enforcement/code enforcement within the City of Shasta Lake?*

There is no consensus between COSL officials interviewed by the Grand Jury as to how the money will be disbursed between code enforcement and law enforcement. It is unclear whether law and/or code enforcement funds will be increased, although interview responses indicate it will not. The Argument in Favor of Measure A states that “All programs funded by Measure A will be subject to oversight and review. All the funds will be fully audited each year.”

Measure A does not state if law/code enforcement will be increased or maintained at the current level. Interviews revealed divergent opinions regarding future law enforcement needs and whether the revenues from Measure A will increase or maintain those services. The Sheriff’s Office personnel indicated that the COSL contracts for a specific level of service. If the need for these services increases due to the cannabis industry, it will be incumbent upon City officials to renegotiate the contract. At the present time, there are no plans for increased law enforcement services. This decision is the sole responsibility of the City of Shasta Lake City Council.



(Banner posted on Shasta Gateway Industrial Park Website)

### **Taxes and Banking - the Cash Dilemma**

Cannabis is a Schedule 1 federally controlled substance. Funds from any cannabis business fall under restrictive federal banking laws. Impacted banking services include: checking accounts, savings accounts, credit cards, ATM services, loans, and mortgages. As a result of existing laws, tax monies received from cannabis proceeds can result in the mixing of cannabis cash and other city cash payments. The City of Shasta Lake receives cash payments from a variety of sources, which are commingled with cannabis revenues. This commingling of federally acceptable cash payments such as utility bills, city fees, and taxes with federally illegal cannabis proceeds and depositing them in a federally insured bank may result in a violation of federal banking regulations.

The Grand Jury toured and researched tax-collection departments in other jurisdictions to determine policies and procedures for cash handling that are already successfully in place. Based upon that research, it appears that the COSL is not following generally accepted practices as it applies to the intake of cannabis sales generated cash. As of the writing of this report, no formal, approved written procedures on how to process cash generated by cannabis businesses were provided to the Grand Jury by the employees of the COSL. City employees interviewed