



# Memorandum

**TO:** THE HONORABLE MAYOR &  
CITY COUNCIL

**FROM:** Councilmember Lan Diep

**SUBJECT:** CANNABIS MANUFACTURING,  
DISTRIBUTION, AND TESTING

**DATE:** 1/14/2019

Approved

Date

1/14/19

## RECOMMENDATION

Adopt the many strains of recommendations in the four staff memos with the following:

1. Report back to the Community and Economic Development Committee in winter 2020 on how many cannabis manufacturing, distribution, and testing business permits have been issued, any problems arising from the industry, and potential improvements to the policy recommendations made today; and
2. Conduct a study of how the uses on our industrial lands are changing and return to Council when appropriate with a report on the state of our industrial property market, identifying opportunities and strategies for revitalization, intensification, and creation of permanent protections of industrial lands.

## BACKGROUND

San José is America's 10th largest city and growing. To prevent unchecked, crazy weed-like urban sprawl, voters placed an imaginary dome around the city in the form of an urban growth boundary. This allows the city to concentrate its efforts on diffusing limited resources across a smaller geographical area. But it also makes developable land finite and forces different uses to compete with one another. Hybrid or joint uses of land would be most efficient, but typically, one kind of use will preclude another.

Industrial lands are a prime example. They support the employment uses that generate revenues to fund city services and are generally cheaper in value as they are located away from amenities. In part because of the lower price, there are continual attempts to rezone industrial land or site non-industrial uses on it: residential use, places of worship, medical offices, etc... As industrial land is rezoned or new purposes are allowed on them, there is less space available for our deeply seeded tech industry that makes San José the capitol of the Silicon Valley.

Now staff recommends introducing three new allowed uses on our industrial lands: cannabis manufacturing, distribution, and testing.

## ARGUMENT

There has been a lot of buzz about San José's climb as a leader in crafting standards to regulate medicinal and recreational cannabis. We should continue to blaze the path forward for ganjapreneurs. California's regulatory framework following the passage of Prop 64 has served to cure the anxiety stemming from the haziness of federal law enforcement of marijuana laws. Our city anticipated where the state was headed and prepared to extract maximum advantage from the legalization of this budding industry. By allowing the sale of recreational reefer at 16 retail sites within our city, San José has been able to stash away lots of greenbacks due to the green. Staff's recommendations to allow the new uses of manufacturing, distribution, and testing on industrial-zoned lands will surely light a fire under the industry and ensure that it continues to flower and bloom in San José. This is sound policy from an economic development perspective in terms of job creation and revenue generation. But switching our vantage point from the trees for the forest, it becomes apparent that planting our hopes on laughing-grass as a high revenue-generator may only make more potent our city's homegrown and chronic problem of increasing upward pressure on cheap real estate that fosters our tech industry.

Allowing cheeba to be manufactured, distributed, and tested locally on our industrial lands will crystalize an industry around edibles and topicals, rather than just blunts. As the industry booms, so will our tax revenues. But because this new use will increase competition on our already-limited industrial lands, the tech sector and other employment uses must eventually take a hit. It is true that at first, sativa-supporting businesses may only dab, but it is not hard to imagine a near-future where these new businesses mushroom due to their success, occupying an eighth, then a quarter, and eventually a half or more of our industrial employment lands. The city presently has a limit of 16 cannabis retailers but there will be no limit on the number of cannabis manufacturers, distributors, or testing labs. While these business will likely serve the 16 legal retailers, they may also serve other legal retailers elsewhere. Thus – while unlikely – permitted pot businesses could theoretically blossom from a handful to 420, to 710, or more.

The heightened competition would at least constrict, if not vaporize other employment uses on industrial land. Our valley has gone from orchards to tech. Change is inevitable, but it would be a shame to see our tech industry struggle to find space and go up in a puff of smoke, blowing off to other places such as Silicon Beach, Silicon Alley, or Silicon Hills.

The backrolling of tech may seem paranoid but we can dispense with the possibility by exercising an ounce of caution to ensure that safeguards are baked into our policy at the start to prevent too great an imbalance among the various employment uses on our limited industrial land. Tracking how these new businesses do and conducting a comprehensive study on current trends on our industrial lands will provide an access point through which we can ace these challenges and hash out better, smarter, and denser, growth policies.

## CONCLUSION

Staff should report back to CED a year from now on the state of these new businesses and conduct a comprehensive study on state of our industrial property market.

