

## Fee Review for the Cannabis Business License Bylaw

### ISSUE

The existing business license fees for cannabis retail stores were established to recover the costs associated with developing and enforcing cannabis zoning and licensing regulations. In determining a licensing fee, consideration was given for the provincial limits on the number of stores allowed to operate in Saskatoon. With the removal of these provincial limits coming in September 2020, the City of Saskatoon must now make amendments to the fee schedule in The Cannabis Business License Bylaw.

### RECOMMENDATION

That the Standing Policy Committee on Planning, Development and Community Services recommend to City Council that the City Solicitor be requested to prepare amendments to the Cannabis Business License Bylaw, reducing the license fee for a new cannabis retail store and new cannabis production facility to \$4,500.

### BACKGROUND

On June 1, 2018, to prepare for cannabis legalization, the Province of Saskatchewan announced the list of successful proponents who were granted permits to open cannabis retail stores, including seven permits allocated for Saskatoon. City Council adopted the Cannabis Business License Bylaw on June 25, 2018, which included business license fees based on a cost-recovery model. The significant costs associated with preparing for federal legalization and provincial regulation of cannabis, as well as anticipated costs of administering, regulating and enforcing the Cannabis Business License Bylaw were to be recovered through cannabis business license fees. An initial license fee of \$20,000 was adopted by City Council, in addition to a resolution that a report be brought forward to evaluate renewal fees associated with cannabis related businesses.

On August 26, 2019, City Council resolved to adopt amendments to the Cannabis Business License Bylaw to establish a renewal fee of \$85 for cannabis related businesses.

This report is intended to address provincial changes to lift the cap on the number of cannabis retail stores and resulting implications for the business license fee. The report also addresses the resolution made by the Standing Policy Committee on Planning, Development and Community Services at its meeting on August 12, 2019. The Committee resolved:

“That Administration report back in one year regarding the adequacy of the renewal fee”.

## DISCUSSION/ANALYSIS

On October 29, 2019, the Province of Saskatchewan announced the Saskatchewan Liquor and Gaming Authority (SLGA) would no longer be limiting the number of stores operating in municipalities in Saskatchewan and would begin accepting permit applications for new stores in September 2020. The dissolution of the capped market has implications with respect to cannabis business license fees, as there will no longer be a fixed number of businesses from which to recover costs.

### Existing Standards and License Fees

The Zoning Bylaw provisions adopted to allow for cannabis retail stores in Saskatoon include separation distance limits to prevent clustering. Currently a 160 metre separation distance is required between cannabis retail stores. There is also a 60 metre separation distance from sensitive land uses such as elementary and high schools, parks, community centres, public libraries and child care centres. Based on current estimates, approximately 60 sites in permitted commercial zoning districts could accommodate a cannabis retail store while meeting all separation distances from existing cannabis retail stores and sensitive uses. This number increases to approximately 180 sites when all permitted industrial zoning districts are also included, although not all of these sites are ideal for retail land use.

In reviewing the separation distances and licensing requirements in other municipalities, it appears there are a variety of approaches being taken, with the majority of cities operating within an uncapped market. The cities with an uncapped market have separation distances ranging from 200 metres to 400 metres. The number of cannabis retail stores per capita, varies from 4 stores per 100,000 people to 13 stores per 100,000 people. Appendix 1 provides a summary of the approaches taken in different municipalities, including licensing fees and separation distances.

Cannabis related business licensing fees were developed based on a formula to ensure costs related to developing the bylaw, licensing cannabis businesses and conducting enforcement were recovered. This formula assumed the number of cannabis retail stores would be restricted to a maximum of seven retail stores, as per provincial regulations. With additional cannabis retail stores permitted, the initial application license fee needs to be reduced to ensure license fees are set at a rate reflective of the costs of developing and administering the licensing program in line with the licensing provisions in the *Cities Act*. The table below indicates the costs associated with regulating the cannabis industry to date, as well as expected business license fees to recover those costs.

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Staffing Resources	Estimate of Initial Start-Up Costs (June 2017-June 2018)	Estimate of Costs - Year 1 (June 2018-June 2019)	Estimate of Costs – Year 2 (June 2019-May 2020)	Estimate of Costs – Years 3 to 6 (May 2020-May 2023)	Total Costs
Community Standards	\$47,500	\$23,200	\$6,700		\$77,400
Solicitors	\$71,600	\$9,300	\$2,700		\$83,600
Other	\$13,000	\$3,200			\$16,200
Review of New Applications				\$7,500	\$7,500
<b>Total costs</b>	<b>\$132,100</b>	<b>\$35,700</b>	<b>\$9,400</b>	<b>\$7,500</b>	<b>\$184,700</b>
Revenue to date (6 retail stores x \$20,000)					\$120,000
Expenses in excess of revenue					\$64,700

The unrecovered costs, plus estimated future costs of licensing and enforcing additional cannabis related businesses through to 2023, is \$64,700. For the purposes of calculating licensing fees, Administration estimated a total of 15 additional cannabis related businesses will be licensed over the next three years, of which 14 would be cannabis retail stores and one cannabis production facility. This would result in a total of 20 cannabis retail stores and one cannabis production facility operating in Saskatoon and aligns with the approximate number of cannabis retail stores per capita in other Canadian municipalities with uncapped markets.

Administration is recommending recovering these expenses by amending the initial licensing fee for cannabis related businesses to \$4,500, to ensure all expenses will be recovered without generating excess revenue.

Expenses in excess of revenue can primarily be attributed to the initial start-up costs of developing the bylaw, which have yet to be fully recovered. Administration is not anticipating any additional or significant enforcement costs related to cannabis. Based on this and the removal of the provincial cap on the number of retail stores resulting in additional revenue from new cannabis retail store business licenses, the existing cannabis related business renewal fee of \$85 is anticipated to continue to be adequate to fully recover the ongoing costs of the program.

### Input from Cannabis Industry

Through the course of this review, conversations have continued with both the existing industry and new businesses hoping to locate in Saskatoon. The new businesses are eager to enter the market and looking for details on when they can submit applications. The existing industry has advised the provincial decision to remove the cap will have significant impacts on their business.

A group of four licensed cannabis retailers in Saskatoon, representing five retail stores, have submitted a proposal for amendments to development standards for cannabis retail stores, which is included as Appendix 2. The proposal seeks to have the separation distance between cannabis retail stores increased from 160 metres to 1,000 metres, as well as municipal cap placed on the number of stores.

Administration has reviewed the proposal and at this time is not recommending amendments to the separation distance between stores or the adoption of a cap on the number of stores. The separation distance continues to be appropriate regulation to address land use impact and effectively limits clustering and the total number of stores which could be established in the city. While the cannabis retail store owners raised concerns about the economic viability of additional stores, regulating business competition would be a departure from the City's current approach and role in regulating the cannabis industry for land use impact.

### **FINANCIAL IMPLICATIONS**

The Business License Program operates under a cost-recovery model. The Business License Stabilization Reserve is in place to ensure there is no mill rate impact resulting from the Business Licencing program should expenses exceed revenues in any given year. Currently, the balance in the stabilization reserve is sufficient to cover the additional expenditures related to cannabis start-up costs. The length of time it will take to recover all costs associated with the licensing cannabis related businesses is dependent on the license fee and the number of additional cannabis related businesses opened in the future.

Should revenue from licensing cannabis related businesses exceed expenses in the future, the balance will be held in the stabilization reserve to address future expenses. Administration will continue to monitor revenue and expenses related to licensing and regulating cannabis and report further if amendments to the fee schedule are required to ensure licensing fees remain in line with licensing expenses.

### **OTHER IMPLICATIONS**

Public notice will be provided pursuant to Section 3(p) of Policy No. C01-021, the Public Notice Policy at least seven days in advance of the City Council meeting where the proposed Bylaw changes will be considered.

### **NEXT STEPS**

If the recommendation is adopted by City Council, the City Solicitor will prepare amendments to the Cannabis Business License Bylaw.

### **APPENDICES**

1. Municipal Scan
2. Proposal from Saskatoon Licensed Cannabis Retailers Working Group

**REPORT APPROVAL**

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