

Robert Adelman
Benmore Valley Road
Lakeport, CA 95453
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County of Lake
Board of Supervisors
255 N. Forbes Street
Lakeport, CA 95453

Supervisors:

I am writing in response to various issues raised at the meeting on April 24th, 2018.

In the presentation by HdL Consulting, the assertion of market saturation limiting Lake County's potential market share needs to be considered carefully to best understand how Lake County can benefit:

1. Extrapolating historical data from the black market to the regulated market does not work. Mr. Lovelace was correct in qualifying his projections by noting that these are guesses based on very little hard data. The majority of the cannabis from the black market is contaminated and is not saleable on the legal market, which changes the supply projections dramatically. No one really knows what the supply/demand will look like in California, how fast the market may expand, or how the black market and personal use cultivation will affect the market dynamics. Mr. Skalla raised this issue during the public input section.
2. The analysis did not include a market segmentation of the different forms of feed stock. Historically, the black market supported sales of trimmed flower. The cultivation of untrimmed, whole-plant biomass for manufacturing has not been explored. There is no way to produce accurate projections until the market matures and we have hard data. As a rural agricultural county, Lake County is well positioned to take a disproportionate share of the state-wide bulk outdoor biomass market.
3. The analysis did not include a market segmentation around license types and the attributes that play to the strengths of various counties where cultivation is proposed. For example, Lake County has a strength in large, remote, outdoor cultivation to supply manufacturers. A methodology that takes the average of all permit types over all counties, including urban counties, does not help inform how to best integrate the industry locally.
4. Most large firms are making a bet on the federal government lifting cannabis prohibition and California becoming a net export state. Therefore, current state-wide projections are irrelevant to long-term business plans and can be misleading when assessing the potential economic benefit to Lake County. Large cultivators are setting up for multi-decade projects. Mr. Sklar made this point during the public input section.

The entire analysis was based on false assumptions around market size and dynamics using a state-wide average, without taking into account the competitive advantage Lake County has in certain market segments. For a comprehensive Lake County Economic Impact Report see:

<https://www.lakecountyeconomicdevelopment.com/images/docs/lake-county-economic-impact-report.pdf>

The author Mr. Garrett has extensive, verifiable credentials in econometrics and is in the process of updating the Lake County report to reflect current data. He is currently preparing a full-blown Economic Impact Report for Sonoma County in partnership with Sonoma State University. Mr. Garrett has offered to present to your Board should you have questions.

I highly recommend the Board accept the generous offer from Mic Steinmann, the Community Services Director of the City of Greenfield, to present his findings to the Board and the public. He is on the front lines of bringing the cannabis industry to a small, impoverished rural community and has verifiable credentials, including a law degree from UCLA.

<https://www.lakecountyeconomicdevelopment.com/cannabis/partnership-with-city-of-greenfield>

Using the 106 Water Board enrollees as projection for the number of cultivation licenses is erroneous:

1. Many land owners are enrolled in the Water Board Programs simply to entitle their land and have it eligible for cannabis cultivation with no intention of cultivating. Enrolling takes around 30 minutes on the State Web Portal and no fee is due for 30 days. In other words, it does not represent a commitment to cultivate. Off the top of my head, I know of 4 large properties for sale with Water Board Permits. They are languishing on the market, partially due to Lake County not allowing cultivation to begin.

2. Water Board enrollees do not map one-to-one to State Cultivation Licenses as implied by Mr. Lovelace. For example, one Water Board Permit could support up to 50 state cultivation licenses, depending on the configuration of the property.

The projection of potential applicants was way off base due to a misunderstanding of the Water Board Permit requirement as applied to Ordinance 3073.

The HdL projection of \$164,102 for total annual Measure C Tax revenue is easily refutable with indisputable fact. The projection is based on multiple false market assumptions:

1. The 5 issued states licenses on the Benmore Valley Ranch alone have potential to generate \$217,800 in 2018 if operating at full capacity:

https://www.lakecountyeconomicdevelopment.com/images/Measure_C_tax_payment.jpg

2. Under Ordinance 3073, the single Benmore Valley Ranch site has the potential to generate well over \$1,000,000 of Measure C tax revenue *annually*.

3. If the 23 licenses that have already been issued to Lake County applicants by CalCannabis were activated, as promised by the Board, \$548,000 of Measure C tax revenue would be assessed in 2018. I

was happy to hear Chairman Steele reaffirm that it was the Board's intention to allow these applicants to operate in 2018. Staff should immediately follow the Board's direction and provide early activation for the permits that meet the criteria set forth in Ordinance 3073. More information here:

https://www.lakecountyeconomicdevelopment.com/images/docs/public-input/Letter-to-LC-BOS_4-6-18.pdf

When Chairman Steele asked Mr. Lovelace for advice on early activation of the use permits for Lake County applicants, it was apparent that Mr. Lovelace was not up to speed on where Lake County is in the process. He did not address the question and looked perplexed; he spoke about the state temporary licenses issued by CalCannabis (there is no such thing as early activation for state licenses). It was clear that he was not familiar with Lake County Ordinance 3073 and was unaware of the plight of the applicants who are awaiting early activation of their use permits, the lost investment, the broken promises by the Board to the community, or the lost Measure C tax revenue.

Sincerely,

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