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**Resolution Establishing Business Operating Permit Fees for Cannabis Consumption Lounges
[Published on 02/13/2026; 02/19/2026] [Continued at the February 24, 2026 Council Meeting]**

File ID: 2026-00667

Location: Citywide

Recommendation: Conduct a public hearing and upon conclusion, adopt a **Resolution** establishing two business operating permit fees for Type 1 (Non-smoking Consumption) and Type 2 (All Consumption) cannabis consumption lounges.

Contact: Peter Coletto, Director, (916) 808-5416, pcoletto@cityofsacramento.org, Department of Finance; Al Romero-Gibu, Cannabis Manager, (916) 808-4772, aromerogibu@cityofsacramento.org; Fiona Mattson, Program Manager, (916) 808-8925, fmattson@cityofsacramento.org; Office of Cannabis Management

Presenter: Al Romero-Gibu, Cannabis Manager, (916) 808-4772, aromerogibu@cityofsacramento.org, Office of Cannabis Management

Attachments:

- 1-Description/Analysis
- 2-Resolution
- 3-Proposition 26
- 4-EPS Study Memo

Description/Analysis

Issue Detail: On November 19, 2024, Council adopted Ordinance 2024-0044 establishing a five-year pilot program for cannabis social consumption. This pilot program creates two types of cannabis consumption lounges:

- Type 1 (Non-smoking Consumption) - A Type 1 condition on a valid storefront cannabis dispensary permit authorizes a storefront cannabis dispensary permittee to allow persons to consume cannabis and cannabis products, other than by smoking or vaping, in a cannabis consumption lounge on the site.

- Type 2 (All Consumption) - A Type 2 condition on a valid storefront cannabis dispensary permit authorizes storefront cannabis dispensary permittee to allow persons to consume cannabis and cannabis products, including by smoking or vaping, in a cannabis consumption lounge on the site.

The proposed fees are for the regulation of consumption lounges, new applications and renewals, are as follows:

- **Type 1 (Non-smoking Consumption)** - \$5,372
- **Type 2 (All Consumption)** - \$7,163

These fees were developed by Economic & Planning Systems, Inc. (EPS) and have currently been assessed as part of the ongoing program permit fee study. These fees will be re-evaluated at the end of the social consumption pilot program. The fees are calculated based on the reasonably foreseeable costs required to administer and enforce the City's regulations for the issuing, inspecting, monitoring, enforcing, and adjudicating cannabis consumption lounge conditioned permits (Attachment 2). Cannabis Opportunity Reinvestment and Equity (CORE) program cannabis businesses are exempt from these fees.

Policy Considerations: The proposed fees are consistent with Council's adopted Fees and Charges Policy and support the City's goals of budget sustainability and fiscal responsibility.

Proposition 26 was passed by voters on November 2, 2010. The intent of the measure was to ensure the effectiveness of Propositions 13 and 218 by providing a definition of a "tax" for state and local purposes (Attachment 3). Specifically, it states "that neither the Legislature nor local governments can circumvent these restrictions on increasing taxes by simply defining new or expanded taxes as 'fees.'" Thus, under Proposition 26, a tax has been defined broadly to include any levy, change, or exaction of any kind imposed by a local government. Therefore, the City bears the burden of proving that a fee or a charge is not a tax.

The proposed fees are not a tax under Proposition 26 because of exception 3 (business permit). The proposed fees are established to cover both the administration and enforcement of the cannabis program as it relates to the permitting and enforcement of cannabis consumption lounges, which include the permitting process, providing regulatory and compliance inspections to permitted businesses, and taking enforcement actions against unlawful consumption operations throughout the city.

Additionally, all cannabis consumption lounges will require a conditional use permit under the proposed amendments to Title 17. Proposed Title 17 amendments, if passed by the Council, the Office of Cannabis Management will make available applications for consumption lounges to all storefront dispensaries.

Economic Impacts: The addition of cannabis consumption lounges may increase economic activity in the commercial cannabis marketplace, as well as drive cannabis tourism and enhance surrounding businesses to the lounge.

Environmental Considerations: This action is exempt from the California Environmental Quality Act (CEQA) because it is the adoption of an ordinance, rule, or regulation that requires discretionary review, including environmental review, and approval of permits, licenses, or other authorizations to engage in commercial cannabis activity and because it does not have the potential for causing a significant effect on the environment ((California Business and Professions Code section 26055(h), CEQA Guidelines section 15061(b)(3)).

Sustainability: Not applicable.

Commission/Committee Action:

- On September 19, 2023, the Law and Legislation Committee (Committee) directed OCM staff to develop a pilot framework for cannabis social consumption lounges.
- On May 21, 2024, staff provided an informational update to the Committee regarding a framework for regulating consumption lounge business operations with preference to CORE storefront dispensaries. The Committee provided direction to return with a framework to allow consumption business operations for all storefront dispensaries.
- On September 17, 2024, staff presented a cannabis consumption business operating framework to the Committee. The Committee forwarded the pilot program concept for social consumption to City Council for consideration but requested a City Council workshop soliciting the expertise of public health experts regarding cannabis consumption statewide public health trends prior to Council consideration of social consumption.
- On October 22, 2024, the City Council heard presentations from public health experts discussing statewide public health trends and secondhand smoke in dispensaries.
- On November 19, 2024, the City Council adopted an Ordinance 2024-0044 amending Title 5 concerning business regulations for cannabis consumption lounges with the direction to return with an ordinance addressing the geographical inequities of consumption lounges across Council districts, as well as the ability for call-up review process for cannabis consumption lounges.
- On April 8, 2025, the Committee forwarded an ordinance limiting the number of lounges

per district to address the geographical inequities and removing the call-up review process of cannabis businesses so that it will occur earlier in the overall process through the conditional use permit process.

- On September 16, 2025, the City Council adopted Ordinance 2025-00916 relating to the call-up provision in Title 5 and adopted Resolution 2025-0252, a “First-In-Line” process to authorize a storefront cannabis dispensary permittee to operate a cannabis consumption lounge.

Rationale for Recommendation: Implementing consumption lounge condition fees for dispensary permits allows the City to recover reasonable costs associated with the permit review, issuance, and ongoing costs of administration and enforcement activities. Consistent with Council approved CORE program benefits, the fee will be waived for CORE program participants.

Financial Considerations: Social consumption may increase cannabis sales which would increase revenues into the General fund and the Measure L Children’s Fund. Fees will cover costs to administer the consumption lounge pilot program.

Local Business Enterprise (LBE): Not applicable.

RESOLUTION NO. _____

Adopted by the Sacramento City Council

March 3, 2026

Approving Business Operating Permit Fees for Cannabis Consumption Lounge Conditions on a Dispensary Permit

BACKGROUND

- A. On November 19, 2024, city council adopted an ordinance amending Sacramento City Code chapter 5.150 to establish a five-year pilot program for the operation of cannabis consumption lounges.
- B. A storefront cannabis dispensary permit may be authorized to allow the operation of a cannabis consumption lounge with one of the following types of conditions: Type 1 condition (non-smoking consumption), which is a condition on a valid storefront cannabis dispensary permit authorizes a storefront cannabis dispensary permittee to allow persons to consume cannabis and cannabis products, other than by smoking or vaping, in a cannabis consumption lounge on the site, subject to the provisions of this chapter; or Type 2 condition (all consumption), which is a condition on a valid storefront cannabis dispensary permit authorizes storefront cannabis dispensary permittee to allow persons to consume cannabis and cannabis.
- C. The new and renewal application fees to add a condition to operate a cannabis consumption lounge on a dispensary permit, below, are calculated based on the reasonably foreseeable costs required to administer and enforce the City's regulations for the permits.
- D. Pursuant to California Constitution, article XIII, §1(e)(3) (Proposition 26), these fees are not taxes because they are for the reasonably foreseeable regulatory costs to a local government for condition business permits; performing investigations, inspections, and audits; and the administrative enforcement and adjudication thereof.

BASED ON THE FACTS SET FORTH IN THE BACKGROUND, THE CITY COUNCIL RESOLVES AS FOLLOWS:

Section1. The amount of business operating permit fees for a cannabis consumption lounge condition is established as follows:

Type	Fee
Type 1	\$5,372
Type 2	\$7,163

Proposition 26

Proposition 26, the “Stop Hidden Taxes Initiative,” was passed by the voters on November 2, 2010, to amend Article XIII C of the State Constitution. According to the ballot measure, the intent of the measure is to ensure the effectiveness of Propositions 13 and 218 by providing a definition of a “tax” for state and local purposes “so that neither the Legislature nor local governments can circumvent these restrictions on increasing taxes by simply defining new or expanded taxes as ‘fees.’” Accordingly, under Proposition 26 a tax has been very broadly defined.

Tax Defined:

“Tax” now means “any levy, charge, or exaction of any kind imposed by a local government, except for the following seven categories of charges:

Exception 1 – Benefit Conferred or Privilege Granted

A charge imposed for a specific benefit conferred or privilege granted directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of conferring the benefit or granting the privilege.

Examples:

- Residential parking permit fees
- Professional licenses
- Business improvement assessments

Exception 2 – Government Service or Product

A charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of providing the service or product

Examples:

- User fees for park and recreation programs
- Weed abatement fees
- Sidewalk curb repairs

Exception 3 – Licenses and Permits

A charge imposed for the reasonable regulatory costs to a local government for issuing licenses and permits, performing investigations, inspections and audits, enforcing agricultural marketing orders, and the administrative enforcement and adjudication thereof

Examples:

- Building inspections
- Cardroom license
- Business licenses

Exception 4 – Use of City property

A charge imposed for entrance to or use of local government property, or the purchase, rental, or lease of local government property

Examples:

- City-owned parking lots
- Swimming pools
- Convention Center rentals
- Golf green fees

Exception 5 – Fines and Penalties

A fine, penalty, or other monetary charge imposed by the judicial branch of government or a local government as a result of a violation of law

Examples:

- City Code fines and penalties (e.g., 1.28.020)
- Parking fines

Exception 6 – Property Development Charges

A charge imposed as a condition of property development

Examples:

- Development impact fees

Exception 7 – Proposition 218 Fees

Assessments and property related fees imposed in accordance with the provisions of Proposition 218, Article XIII D

Examples:

- Utility fees for water, sewer, drainage, and solid waste
- Street lighting assessments

Burden of Proof:

The paragraph following the seven enumerated exceptions states:

“The local government bears the burden of proving by a preponderance of the evidence [1] that a levy, charge, or other exaction is not a tax, [2] that the amount is no more than necessary to cover the reasonable costs of the government activity, and [3] that the manner in which those costs are allocated to a payor bears a fair or reasonable relationship to the payor’s burdens on, or benefits received from, the governmental activity.” The latter two requirements only apply to the first three exceptions.

Thus, with the burden of proof now shifted to the City, that requires each department to take into consideration how it aims to prove that a proposed fee or fee increase is not a tax. The following analytical framework can assist in this regard.

Burden of Proof: A 3-step Analysis

1. The City must make a threshold determination whether one of the exceptions applies.

- If none apply, it is a tax subject to voter approval.

2. If Exceptions 1, 2, or 3 apply, the City must also show that the fee revenue will not exceed the reasonable costs of providing the related governmental activity (at the aggregate level).

3. Finally, the City must show that the costs are fairly allocated to the individual payors.



Technical Memorandum

To: Al Romero-Gibu

From: Tom Martens, Economic & Planning Systems

Subject: Consumption Lounge BOP Fee Calculation
EPS #232153

Date: February 25, 2026

Introduction

The City of Sacramento's Office of Cannabis Management (OCM) retained Economic & Planning Systems, Inc. (EPS) to conduct a study to inform an update of the current cannabis Business Operating Permits (BOP) fee schedule (fee study) that reflects the actual costs to the City associated with processing and enforcing cannabis fees.

The results of the overall fee study are nearing completion; however, due to the lack of an established fee amount for consumption lounge permits, the consumption lounge permit fee is being brought forward for consideration ahead of the rest of the full permit fee study.

EPS has developed a cost-based fee schedule that reflects the estimated relative costs for processing the various BOPs, based on staff processing time. The staff cost-based schedule was derived using a combination of staff hours coded to processing different BOPs, interviews with permit processing staff in OCM and other City Departments, and inter-departmental budget allocations for cannabis BOP processing.

Since the Consumption Lounge BOP is a new permit, its fee must be estimated based on the available processing cost data for other existing fees. It was determined that the operation of a consumption lounge is most similar to a retail dispensary and therefore permit processing would likely be similar to that for a Retail/Dispensary BOP, though reduced in scope as it would be an additional permit on top of a primary BOP.

The following section describes the staff hours-based cost allocation approach followed by the determination of the Consumption Lounge BOP fee.

Staff Hours-Based Cost Allocation

OCM staff collected detailed timesheet information on staff permit processing time, by permit type, from May through September of 2024. With no outdoor growing operations in the City, and therefore little or no seasonality affecting permit processing activity, it was determined that 5-months of data is representative of overall permit activity. The data has been annualized to provide the basis for determining the relative OCM processing costs of different types of permits. **Table 1** summarizes the share of staff permit processing cost, by permit type.

Table 1 OCM Staff Permitting Hours Allocation (Non-CORE)

Permitting Activity (Non-CORE)	Share of OCM Staff Cost Based on Timecard Data Collection
Cultivation - A (Up to 5,000 SF, Nurseries) [1]	15.2%
Cultivation - B (Up to 10,000 SF) [1]	12.6%
Cultivation - C (Up to 22,000 SF) [1]	6.5%
Retail/Dispensary [2]	9.0%
Delivery Only [2]	11.8%
Distribution	20.6%
Distribution-TO	0.0%
Manufacturing Non-Volatile [3]	11.4%
Manufacturing Volatile [3]	3.3%
Microbusiness [4]	9.1%
Testing Lab	0.5%
Total Direct Cost	100.0%

Source: City of Sacramento Office of Cannabis Management; EPS.

[1] Timecard data for Cultivation allocated between sub-categories per full Fee Study Table A-3.

[2] The sum of Retail/Dispensary and Delivery Only costs allocated by each permit type's relative share of the total of Retail/Delivery and Delivery Only permits to equalize fees between these permit types.

[3] Timecard data allocated between Volatile vs Non-Volatile per full Fee Study Table A-2.

[4] Adjusted due to limited data during data collection period and to establish reasonable relationship between Microbusiness fees and other single activity fees.

The allocation of staff hours in **Table 1** is based only on timesheet hours specifically coded for processing non-CORE permits. Staff hours spent processing CORE permit applications, and all other administrative duties, are necessary operating functions of the department that are funded by the permit fees on non-CORE BOPs.

Table 2 summarizes the number of non-CORE permits processed by type for the three prior fiscal years.¹

Table 2 Annual Permits by Fiscal Year (Non-CORE)

Application Type	FY 2021 - 22		FY 2022 - 23		FY 2023 - 24	
	Total [5]	%	Total [5]	%	Total [5]	%
Cultivation - A [1]	36	16.7%	33	14.5%	69	21.4%
Cultivation - B [2]	36	16.7%	38	16.7%	50	15.5%
Cultivation - C [3]	12	5.6%	13	5.7%	23	7.1%
Storefront/Dispensary	19	8.8%	33	14.5%	38	11.8%
Delivery Only	51	23.7%	38	16.7%	50	15.5%
Distribution	32	14.9%	35	15.4%	45	13.9%
Manufacturing [4]	24	11.2%	27	11.9%	35	10.8%
Microbusiness	3	1.4%	8	3.5%	10	3.1%
Testing	2	0.9%	2	0.9%	3	0.9%
Total	215	100.0%	227	100.0%	323	100.0%

Source: City of Sacramento Office of Cannabis Management; EPS.

[1] Includes Indoor Cultivation of up to 5,000 SF and Nurseries of all sizes.

[2] Includes Indoor Cultivation of up to 10,000 SF.

[3] Includes Indoor Cultivation of up to 22,000 SF.

[4] For manufacturing permit detail (FY 2023-24), see Table A-1.

[5] New and renewal.

The allocation of staff permit processing hours in **Table 1** and the numbers of permits issued in FY 2023-24 in **Table 2** provide the basis for allocating departmental costs on a per (non-CORE) permit basis.

Table 3 identifies the total City permit processing costs to be allocated to each of the (non-CORE) BOP types. City cannabis permit processing costs include OCM operating cost, comprised of staff cost and other divisional S&S (essentially overhead), along with budgeted cannabis processing for other departments involved in the cannabis permit processing.²

No differentiation in staff processing time between new permits and renewal permits was identified, based on interviews with OCM staff and cannabis permit processing staff in

¹ CORE permit applications are exempt from BOP fees; therefore, they are excluded from the allocation of permit processing costs.

² Per the Acting City Manager at the time of the analysis, the portion of budgeted City Attorney and Auditor budgeted cannabis permit processing expenditures were reduced, as shown in Table 3.

other departments. Therefore, the updated fee schedule applies the same fee for new permits and renewals.

Table 3 Departmental Cannabis Expenditures

Category	Amended FY 2024-25 Budgeted Expenditure	% of Total	Notes [1]
OCM			
OCM Staff Cost	\$1,377,640		
Other Divisional S&S (services and supplies)	\$331,378		
Total OCM Budgeted Expenditures	\$1,709,018	37%	
Non-OCM			
City Attorney	\$1,044,922		@ 80%
Community Development	\$386,713		
Finance	\$134,232		
Fire	\$84,587		
Police	\$1,222,769		
Auditor	\$93,628		@ 50%
Total Non-OCM Departmental Expenditures	\$2,966,851	63%	
Total Cannabis Permitting & Operational Expenditures	\$4,675,869	100%	

Source: City of Sacramento OCM and Department of Finance.

[1] Budgeted allocation adjustment per Acting City Manager.

City Attorney departmental staff hours are allocated among the different types of permits in proportion to OCM staff costs per type of permit, since the level of processing complexity per permit would likely be similar for both departments. For most other departments, interviews with staff that process cannabis permits identified no staff processing time differentiation among cannabis permit types. The Police department representative interviewed noted longer processing times for larger cultivation operations; but otherwise, no processing time variation between different BOPs.

Consumption Lounge Permit

As noted previously, the Consumption Lounge BOP is a new permit. It was determined that the operation of a consumption lounge is most similar to that of a retail dispensary and therefore permit processing would likely be similar to that for a Retail/Dispensary BOP, though reduced in scope since it would be an additional permit on top of another BOP.

Four anticipated focus areas during staff processing for a Consumption Lounge BOP include:

1. Lounge Operation Plan
2. Impaired Driving Prevention Plan
3. Ventilation Plan (Type 2/smoking only)
4. Other Processing/Administration

Based on discussions between EPS and OCM staff it was estimated that each of these focus areas would require about 15 percent of the processing time that a typical Retail/Dispensary BOP would require. Some tasks may require more or less time for different departments, but an assumption of 15 percent was deemed a reasonable estimate overall that avoids false precision.

The Type 1 – Non-Smoking Consumption Lounge BOP does not require review of a ventilation plan; therefore, the total processing cost is less than the cost for processing a Type 2 Consumption Lounge BOP, which allows smoking and requires a ventilation review.

The estimated OCM staff time necessary for processing Consumption Lounge BOPs is approximately 3.5 hours for Type 1 and 4.6 hours for Type 2. The estimated OCM staff processing time is multiplied by the fully loaded permit processing costs for the department to calculate the OCM cost for processing Type 1 and Type 2 permits. Fully loaded costs are based on OCM annual operating budget divided by the annualized staff hours coded to BOP processing.

To estimate the permit processing costs by other departments, the cost allocations by department that have been identified for the Retail/Dispensary BOP fees were applied to the estimated OCM processing costs to generate estimates of the processing costs for each department, and the total permit processing cost, as shown in **Table 4**.

Table 4 Consumption Lounge Projected Permitting Cost Based on Dispensary BOP Processing Cost Allocations

Item	OCM	Attorney	Police	Com. Dev.	Finance	Auditor	Fire	Total
Retail/Dispensary BOP Cost Allocation								
Share of Permit Cost by Department Based on Dispensary BOP Cost Allocation	33.8%	20.7%	27.2%	10.1%	3.5%	2.4%	2.2%	100.0%
Consumption Lounge Fee Estimate								
Type 1 - Non-Smoking								
Estimated Cost by Department Based on Dispensary BOP Cost Allocation	\$1,818	\$1,111	\$1,463	\$544	\$187	\$130	\$118	\$5,372
Type 2 - All Consumption								
Estimated Cost by Department Based on Dispensary BOP Cost Allocation	\$2,424	\$1,482	\$1,951	\$725	\$249	\$174	\$157	\$7,163

Source: OCM; EPS.