

December 31, 2025

Katie Skjerpung
Economic Development Manager
City of Novato
922 Machin Avenue
Novato, CA 94945

Re: Cannabis Retail Market Analysis

In 2018, the City of Novato engaged the services of HdL Companies to assist with the exploration of allowing commercial cannabis businesses within the City. HdL developed a comprehensive workplan that included numerous presentations to the City Council, community workshops, stakeholder outreach meetings and a community survey, plus development of both a cannabis regulatory ordinance and a tax ordinance. The City continued this engagement in 2019 to allow further refinement of the draft ordinances to better address community concerns.

The City chose to move forward with allowing commercial cannabis businesses other than outdoor or mixed-light cultivation and storefront retailers. The City issued an RFP for cannabis businesses in 2021 and another RFP specifically for non-storefront (delivery only) retailers in 2022. The City currently has 2 licensed cannabis businesses.

The City considered placing a cannabis tax measure on the ballot but ultimately chose not to, instead requiring that cannabis businesses enter into negotiated development agreements that include dedication of a portion of the business's proceeds to the City as community benefits. The amount of the community benefit fee contribution is negotiated separately for each business.

The City Council has now directed staff to look into the possibility of allowing up to 3 storefront cannabis retailers. To assist with this consideration, the City has requested that HdL provide a market analysis to provide information about the likely number of retailers that the City may be able to accommodate and the amount of revenue that might be generated through community benefits. HdL is providing this memo in response to that request.

Cannabis Retailers in the Novato Area

In 2016 voters in the City of Novato approved Proposition 64 by an overwhelming majority of 74.2%, nearly matching voters in San Francisco (74.3%) for the highest level of support in California. Marin County as a whole tied with Santa Cruz County for the second highest level of support at 69.6%, well above the statewide approval rate of 57.1%ⁱ. Despite this, only 3 of the 11 cities within Marin County currently allow any type of commercial cannabis businessesⁱⁱ.

However, the City of Novato is located adjacent to Sonoma County and within a reasonable driving distance of a number of cities and communities which allow, and host, cannabis retailers. Retail studies show that 93% of consumers are willing to travel no more than 15 to 20 minutes to make most routine purchasesⁱⁱⁱ. The cities of Petaluma, Cotati and Sonoma all fall within this range, as do a number of unincorporated communities with cannabis retailers.

Figure 1, below, shows all of the cities and communities within roughly 20 minutes of Novato that allow cannabis retail, either storefront or non-storefront delivery. The table also notes whether each city allows the sale of medicinal cannabis, adult-use cannabis, or both, and includes the rate of any tax or community benefit fees applied to retail cannabis sales. Along with Novato, the cities of Fairfax and San Rafael allow non-storefront delivery of medicinal and adult-use cannabis. Fairfax also allows storefront retail, but only for medicinal cannabis. The 2 retailers shown for Fairfax operate as a single business; one conducting storefront medicinal cannabis sales and the other providing delivery of both medicinal and adult use cannabis. The County of Marin allows retail delivery of medicinal cannabis, only, but does not allow the sale of adult use cannabis.

In nearby Sonoma County, the cities of Cotati, Petaluma and Sonoma all allow the sale of both medicinal and adult use cannabis, as does the County of Sonoma in the unincorporated area. All of these jurisdictions allow both storefront and non-storefront delivery. The City of Petaluma previously disallowed storefront retailers but moved to allow no more than 3 of them as of June 2024. The first of these opened December 11th, 2025, and 2 more are anticipated to open in 2026.

Figure 1:

Cannabis Retail Types Allowed in Nearby Jurisdictions			
City/County	Storefront	Delivery	Tax or Fee
Novato	-	A/M	3.0% - 4.0%
Fairfax	M	A/M	N/A
San Rafael	-	A/M	1.0%
Marin County	-	M	0.0%
Petaluma	A/M	A/M	0.0%
Cotati	A/M	A/M	3.0%
Sonoma (City)	A/M	A/M	4.0%
Sonoma County	A/M	A/M	3.0%
Red or - indicates not allowed; Green indicates allowed A indicates Adult Use; M indicates Medicinal			

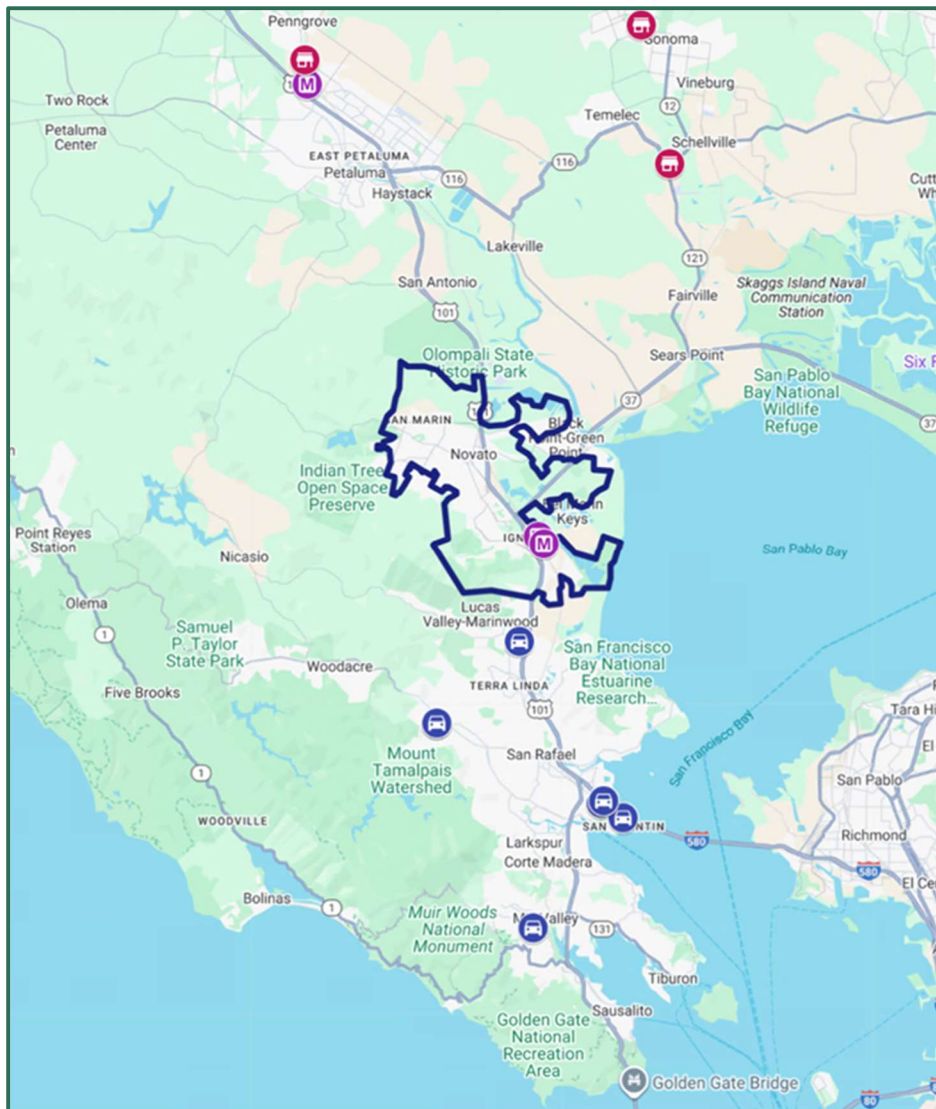
The cities of Sonoma, San Rafael and Cotati all have voter-approved cannabis taxes. San Rafael currently charges a rate of just 1.0% for cannabis sales by delivery^{iv}. Sonoma County^v and the City of Cotati both charge a rate of 3.0% for all retail cannabis sales, and the City of Sonoma charges a rate of 4.0%. Neither the County of Marin nor the City of Petaluma apply any tax to cannabis retailers. The City of Fairfax requires that cannabis businesses provide community benefits through a development agreement, but City staff were not able to provide any information on rates or amounts. The City of Novato similarly requires cannabis businesses provide community benefit fees. These community benefits are negotiated separately with each business but are generally in the range of 3% to 4% of gross receipts.

Where storefront cannabis retailers are available, consumers have shown a strong preference for making purchases in-store rather than by delivery. Retailers that offer both in-store sales and delivery typically report only 5% to 10% of sales being conducted by delivery. However, the lack of options for walk-in purchases in most of Marin County presumably would condition consumers

to make purchases by delivery at a far higher rate than they might otherwise. A small minority of cities tax sales by delivery at a different rate than in-store sales (either higher or lower; there is no consensus). HdL does not recommend this as the small percentage of sales to which this would apply is not generally worth the extra burden of reporting, administering and auditing sales for each category differently. Having different rates may also inadvertently encourage cheating by creating an incentive for retailers to falsely inflate the portion of sales reported in the category with the lower tax rate, allowing them to pocket the difference.

Figure 2, below, shows the locations of all licensed cannabis retailers within a roughly 20-minute drive from the City of Novato. All 9 non-storefront retailers in Marin County advertise that they deliver to addresses in Novato. There are 2 cannabis retailers in the City of Petaluma, one of which is a cannabis microbusiness. Both of these retailers also advertise that they deliver to addresses in Novato. There is one retailer near Schellville and another in the Town of Sonoma, both of which deliver into Novato.

Figure 2:



Somewhat further away, and not shown in Figure 2, there are 3 cannabis retailers in Cotati, all of which appear to deliver into Novato. Combined, we have identified a total of 17 cannabis retailers within roughly 20 minutes of Novato, of which 16 deliver to addresses within the City. 11 of these are non-storefront retailers, and 2 of them are license to sell only medicinal cannabis. There is one storefront retailer in Fairfax, but its license is currently expired. The business intends to reopen in 2026. Table 3, below, shows the number of cannabis retailers by type in each jurisdiction and notes whether they deliver into the City of Novato.

Figure 3:

Cannabis Retailers in Nearby Jurisdictions			
City/County	Storefront	Delivery	Total
Novato	0	2	2
Fairfax	1	0	1
San Rafael	0	5	5
Marin County	0	2	2
Petaluma	1	1	2
Cotati	2	1	3
Sonoma (City)	1	0	1
Sonoma County	1	0	1
Total	6	11	17

The non-storefront retailer in Petaluma advertises that they will be opening a storefront soon.
DCC shows license for storefront retailer in Fairfax expired as of 9/9/25.
Phone message states intent to reopen in 2026.

Cannabis consumers have shown a strong preference for making purchases at walk-in locations when possible. Though we do not have firm data on this, estimates suggest that around 75% of cannabis sales are made on a walk-in basis when that option is available. HdL has reviewed data showing that storefront retailers average \$6.5 million in sales per year¹, while non-storefront delivery services average just \$1.3 million per year.

The nearest adult-use storefront retailers are in Schellville and Petaluma, both of which are a 20-minute drive from Novato under the best of circumstances, and can be 40 minutes or more with traffic. Because of this, we believe that the vast majority of cannabis consumers in the City of Novato would opt to make their purchases at a storefront location within the City, were one available. We estimate that allowing 3 storefront retailers in the City of Novato could capture up to 70% of local sales, and would likely also capture some portion of sales from outside of the City, as these would be the nearest and most accessible storefront locations for most residents of Marin County.

¹ We note that the average of \$6.5 million is based on a broad range from as little as \$500,000 to over \$36 million.

Considerations for Locating Storefront Cannabis Retailers

State regulations prohibit non-storefront cannabis retailers from allowing customers onto their premises. Because of this, it is common for non-storefront retailers to be located outside of commercial or retail areas and to instead be located in light industrial zones such as business parks. Storefront retailers, on the other hand, depend upon easy access for consumers and are commonly located in high-traffic retail or commercial centers or shopping districts. Storefront retailers may also be located in freeway-serving commercial zones as a means to capture sales, and cannabis tax/fee revenue, from passing commuters who live outside of the City.

Cities take many different approaches to how they determine the allowable locations for cannabis retailers and for setting an appropriate number of retailers to allow. Some may set a number based on overall population, while others may identify particular commercial areas where cannabis stores may be located and allow a certain number of stores in each part of town. Other cities may consider locations on a case-by-case basis, subject to a conditional use permit (CUP). Still others take a “hands off” approach, allowing the market to determine the best locations and the number of retailers. HdL has worked with cities around California, with each exercising its land use authority to determine the best fit for that city’s specific interests.

When developing its cannabis retail program, the City of Monterey chose to focus on maximizing sales (and tax revenues) from tourists and visitors. The City allowed one cannabis store in each of four tourist-focused commercial areas, including Cannery Row, Old Monterey and the freeway-serving commercial area along Fremont Street.

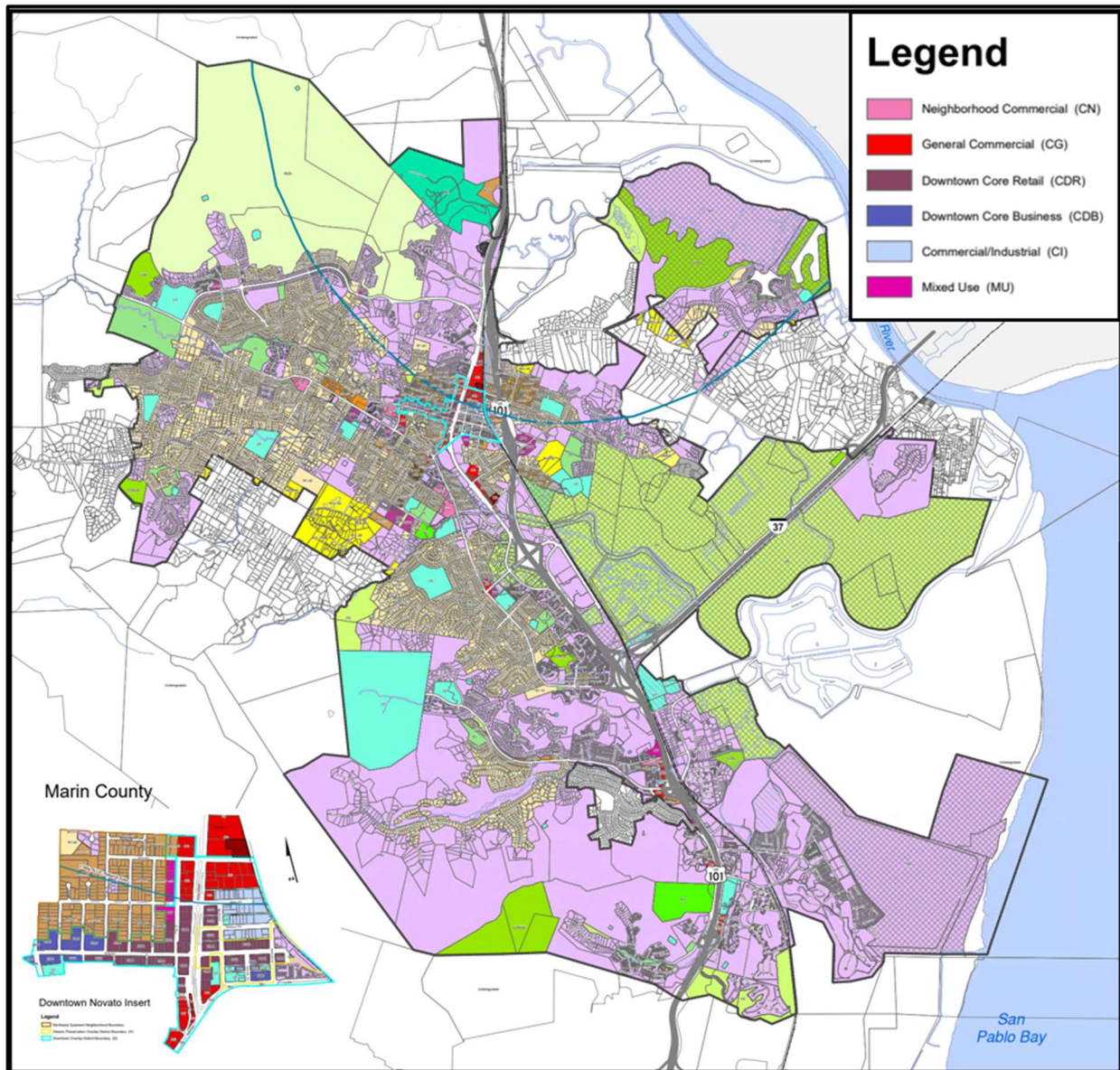
The City of Duarte was faced with an industry-backed ballot initiative to allow cannabis retailers in a mix of zones across the City. The City chose to develop their own cannabis program instead, which located retailers primarily in freeway-serving commercial zones where they may attract passing commuter traffic or provide easy freeway access for deliveries, but also allowed smaller stores in some neighborhood retail zones.

The City of Santa Rosa is home to 22 storefront cannabis retailers, including 2 retailing microbusinesses. These stores are located in a variety of retail commercial zones across the City, including high-traffic freeway-serving zones to either side of Highway 101. Stores are also located in a number of smaller, neighborhood-serving retail zones. Though there are no cannabis retailers in Railroad Square or the downtown core, there are a number on the periphery of this area, within an easy 2-5 minute drive.

Figure 4, on the next page, displays the zoning map for the City of Novato. The legend highlights only those commercial, retail or mixed-use zones where it may be appropriate to allow storefront cannabis retailers. As can be seen, the City contains a variety of commercial zones for a variety of different commercial business type. While it is certainly possible to locate a storefront cannabis retailer in any of these zones, the chosen zone would have a significant impact on the size, design and prominence of the retailer.

For example, a retailer located in the Vintage Oaks Shopping Center would likely be a larger store with a visually interesting facade compatible with the large-format retailers and restaurant chains in the same shopping center. To capitalize on its proximity to the freeway, the business would likely want to be able to advertise its location with large, prominent signage.

Figure 4:



In contrast, a retailer located in the Downtown Core Retail district along Grant Avenue would likely fit into an existing storefront with a lower profile, seeking to attract foot traffic from passers-by on the street. In either case, the City would be able to apply design considerations to ensure the retailer is compatible with its surrounding area.

Cannabis retailers may also be located in neighborhood-serving retail areas or mixed-use zones. In such cases, the retailer would likely be much smaller and far more discreet, on the level of a small, neighborhood bakery, coffee shop or liquor store. Again, the City would be able to exert design standards to ensure compatibility.

Were the City to allow perhaps 3 storefront retailers, we would encourage the City to allow for a variety of types, sizes and locations to meet the needs of cannabis consumers within the community and to maximize market penetration.

Revenue Projections

In Figure 5, below, we have developed an estimate for the size of the retail cannabis market in and around the City of Novato. Starting with the City’s population of 52,300, we have added 8,000 to account for the surrounding unincorporated area, which gives us a total service area population of 60,300 people. Though the City is already well-served by a large number of non-storefront delivery services, we believe that consumers in the City would likely choose to make the vast majority of their purchase on a walk-in basis, if given the opportunity. As noted previously, we anticipate that an array of 3 storefront retailers in the City of Novato could likely capture (or recapture) 70% of the sales for this population. Assuming 30% leakage to delivery services from other jurisdictions reduces our service area population to around 42,000 people.

Figure 5:

Estimated Gross Receipts for Cannabis Retailers		
	Category	Estimate
1	Population of Novato	52,300
2	Population of surrounding unincorporated area	8,000
3	Total service area population	60,300
4	Assumed leakage to other existing retailers	30%
5	Adjusted service area population	42,210
6	Percentage of population that uses cannabis	13%
7	Consumer base (number of cannabis users)	5,487
8	Average transaction amount	\$57
9	Transaction frequency (per month)	2
10	Monthly gross receipts	\$625,552
11	Annual gross receipts	\$7,506,626
12	Cannabis sales per capita (Marin)	\$53
13	Cannabis sales per capita (Sonoma)	\$230
14	Cannabis sales per capita (State average)	\$419
15	Annual gross receipts based on per capita figure	\$9,716,026
16	Annual gross receipts midpoint average	\$8,611,326

To this figure we have applied an estimate for the percentage of the population that uses cannabis on a regular basis (13%^{vi}), as well as estimates for the average transaction amount (\$57^{vii}) and purchase frequency (twice per month^{viii}). From this, we estimate the size of the cannabis market in the Novato service area at roughly \$7.5 million per year.

The California Department of Tax and Fee Administration (CDTFA) provides figures for annual cannabis sales per capita for counties and cities with 5 or more cannabis retailers^{ix}. This data provides remarkably different figures for Marin County (\$53 per capita) and Sonoma County (\$239 per capita). Both of these figures are far below the reported statewide average of \$419 per capita. The average of these three figures works out to \$234 per capita, as shown in Figure 6.

Figure 6:

Per Capita Spending on Cannabis in Nearby Counties	
County	Per Capita Sales
Marin	\$53
Sonoma	\$230
CA Average	\$419
Average	\$234

Applying this figure to our adjusted service area population of 42,000 people produces a somewhat higher estimate of gross receipts at \$9.7 million per year. Averaging these two methodologies gives us a midpoint estimate of \$8.6 million per year.

Using this \$8.6 million midpoint figure, we can now apply a range of tax or community benefit fee rates to estimate the amount of revenue that the City of Novato could generate from storefront cannabis retailers in the City. The City’s development agreements with the existing non-storefront cannabis retailers include community benefit fees that are negotiated separately with each business, ranging from 3.0% of gross receipts to 4.0%. In figure 7, below, we have applied these two rates along with slightly higher rates of 5.0% and 6.0%.

Applying a rate of 3.0% would generate around \$250,000 per year for the City of Novato. A rate of 4.0% would generate around \$340,000 in annual revenue. Applying a higher rate of 5.0% would generate around \$430,000, and a rate of 6.0% would generate a little over \$500,000 per year in annual revenue for the City of Novato.

Figure 7:

Estimate of Cannabis Tax or DA Revenues		
17	Averaged annual gross receipts (from Line 16)	\$8,611,326
18	Cannabis Business Tax Rate:	
19	3.00%	\$258,340
20	4.00%	\$344,453
21	5.00%	\$430,566
22	6.00%	\$516,680
23		
24	Bradley-Burns 1.0% Local Sales Tax	\$86,113
25	Measure C .25% Transactions and Use Tax (2015)	\$21,528
26	Measure M .75% Transactions and Use Tax (2024)	\$64,585
27	Total Sales and Transactions Taxes	\$172,227

Retail cannabis sales would also provide tax revenue from the City’s 1.0% share of sales tax and an additional 1.0% through the City’s two transactions taxes (Measure C and Measure M). These three taxes combined would generate an additional \$170,000 in annual revenue for the City.

Conclusion

Our analysis suggests that storefront cannabis retailers within the City of Novato could generate a surplus of cannabis tax (or community benefit fee) revenue for the City, as they would be the only walk-in cannabis stores in all of Marin County. Cannabis consumers have shown a strong preference for making walk-in purchases at storefront locations, rather than by delivery, so cannabis stores in Novato would likely attract consumers from around Marin County. We estimate that cannabis sales could generate up to \$500,000 in annual tax or fee revenue (depending on the rate), plus an additional \$170,000 in sales and transactions taxes for the City. We note that these are conservative estimates as they do not attempt to quantify sales to consumers traveling to Novato from elsewhere in Marin County. This would also likely recapture current sales leakage to newly-opened storefront locations in the City of Petaluma.

Along with increasing City revenues, HdL has seen that cannabis stores can help to revitalize commercial areas by filling vacant storefronts, attracting new customers and bringing welcome façade improvements. The significant investment necessary to open a cannabis store often extends to high-end design, aggressive marketing and other customer attraction efforts which can increase foot traffic for other nearby stores, and the required security measures can carry over to improved security for adjacent businesses as well.

All of these potential benefits are dependent upon sound and thoughtful policy decisions by the City to ensure that the stores are well located for convenient customer access and that the City has provided clear, consistent and unambiguous rules and regulations for the business to operate. Maximizing cannabis revenue for the City results from maximizing the success of the subject businesses. City cannabis taxes or community benefit fees should be set at a rate that ensures the businesses can remain competitive in an increasingly crowded retail environment.

References:

ⁱ Law Offices of Jennifer McGrath, “*Supplement to the Statement of Vote; Statewide Summary by County for State Ballot Measures*”, <https://www.jennifermcgrath.com/wp-content/uploads/California-Proposition-64-County-Results.pdf>

ⁱⁱ California Department of Cannabis Control, “*Where Cannabis Businesses are Allowed*”, <https://cannabis.ca.gov/cannabis-laws/where-cannabis-businesses-are-allowed/#county-view?county=Marin&activity=Any%20cannabis%20business>

ⁱⁱⁱ Ross Marchant (2014) “*Consumers will Travel 17 Minutes to Reach a Local Business*” <https://www.brightlocal.com/2014/05/01/local-business-travel-times/> Bright Local

^{iv} City of San Rafael, “*Adult-Use and Medical Cannabis Program*” <https://www.cityofsanrafael.org/cannabis/>

^v County of Sonoma, “*Cannabis Business Tax Return Instructions*”, <https://sonomacounty.gov/Main%20County%20Site/Administrative%20Support%20%26%20Fiscal%20Services/AC/TTC/Documents/RAD/Cannabis/Tax%20Forms/Tax%20Return%20for%20Supply%20Chain%20Permits.pdf>

^{vi} Substance Abuse and Mental Health Services Administration, “*2019-2020 National Surveys on Drug Use and Health*” <https://www.samhsa.gov/data/release/2020-national-survey-drug-use-and-health-nsduh-releases>

^{vii} MJ Biz Daily Factbook 2023, Chart 2.06 Page 31 “*Average basket size for select states*”

^{viii} Statista, “*Frequency of purchasing among cannabis consumers in the United States in 2020*”, <https://www.statista.com/statistics/1281578/us-frequency-of-current-consumers-cannabis-purchasing/>

^{ix} California Department of Tax and Fee Administration, “*Cannabis Sales by County*”, <https://cdtfa.ca.gov/dataportal/dataset.htm?url=CannabisSalesByCounty>