



REPORT TO CITY COUNCIL

To: Honorable Mayor and Members of the City Council

From: Jason Simpson, City Manager

Prepared by: Damaris Abraham, Community Development Director

Date: February 24, 2026

Subject: **Request to Amend Development Agreements for Three Existing Cannabis Businesses to Revise the Community Benefit Fee**

Applicants: The Nugg Hubb (PA 2020-86), Roots 2 Harvest (PA 2019-28), The Highest Craft (PA 2018-45)

Recommendation

1. Find that the proposed project is exempt from the California Environmental Quality Act (CEQA) pursuant to CEQA Guidelines Section 15301 (Existing Facilities);
2. Introduce by title only and waive further reading of AN ORDINANCE OF THE CITY COUNCIL OF THE CITY OF LAKE ELSINORE, CALIFORNIA, APPROVING THE DEVELOPMENT AGREEMENT AMENDMENT (DA-2025-07) FOR THE HIGHEST CRAFT, LLC LOCATED AT 571 CRANE STREET (APNs: 377-410-034, 377-410-031, AND 377-410-020);
3. Introduce by title only and waive further reading of AN ORDINANCE OF THE CITY COUNCIL OF THE CITY OF LAKE ELSINORE, CALIFORNIA, APPROVING THE DEVELOPMENT AGREEMENT AMENDMENT (DA-2025-11) FOR THE NUGG HUBB LOCATED AT 570 CENTRAL AVENUE SUITE D-1 (APN: 377-410-037); and

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4. Introduce by title only and waive further reading of AN ORDINANCE OF THE CITY COUNCIL OF THE CITY OF LAKE ELSINORE, CALIFORNIA, APPROVING THE DEVELOPMENT AGREEMENT AMENDMENT (DA-2025-10) FOR R2H HOLDINGS, LLC LOCATED AT 29370 HUNCO WAY (APN: 377-120-032).

Planning Commission Action

On January 20, 2026, the Planning Commission conducted a duly noticed Public Hearing at their regular meeting and recommended approval of the Development Agreements (DAs) to the City Council with a 5-0 vote. The cannabis business owners/operators were present at the hearing. There were no comments from members of the public.

Project Location

Pursuant to Lake Elsinore Municipal Code (LEMC) Section 17.156.040, cannabis businesses are permitted only within the M-1 (Limited Manufacturing) and M-2 (General Manufacturing) zoning districts. The subject cannabis businesses are all currently located in the M-1 zoning district. The three businesses are generally located near the main commercial corridor area along Collier Avenue and Central Avenue in the Business District neighborhood.

CANNABIS BUSINESS	ZONING DISTRICT	ADDRESS
The Highest Craft (Hyperwolf)	M-1	571 Crane Street (APNs: 377-410-034, 031, and 020)
Stellar House Farms (The Nugg Hubb)	M-1	570 Central Ave, Suite D-1 (APN: 377-120-037)
Roots 2 Harvest	M-1	29370 Hunco Way (APN: 377-120-032)

Table 1: Project Location

Background

On November 28, 2017, the City Council adopted Ordinance No. 1383 (Cannabis Ordinance) to establish land use regulations and permitting requirements for cannabis businesses in LEMC Section 17.156. The Cannabis Ordinance includes regulations such as, but not limited to, allowed types of cannabis businesses, permitted zoning districts, location requirements, and maximum number of cannabis business permits.

In order to operate a cannabis business in the City, a business must have an approved conditional use permit, City business license, and applicable State license(s). The cannabis businesses also enter into a Development Agreement (DA) with the City pursuant to LEMC Chapter 19.12 and Government Code Sections 65864 through 65869.5. The DAs provide a uniform approach to safeguard the City from certain known and unknown impacts and costs on City infrastructure, services and neighborhoods related to the establishment of cannabis related land uses. As such, the DAs include public benefits for the community in the form of payment of Community Benefit

Fees (CBF). Under the current terms of the DA, the cannabis businesses are obligated to pay the CBF to the City annually and the fees are assessed based on the floor area square footage for each business at \$18 per square foot with an annual four percent (4%) increase in the CBF rate.

Requested DA Amendments

The subject three cannabis businesses are requesting to amend their DA to revise the CBF and establish a separate CBF rate for retail (e.g. storefront, delivery to customers) versus non-retail (e.g. cultivation, distribution, manufacturing and testing laboratory) cannabis operations. The requested amendments are as a result of the City Council Cannabis Subcommittee's response to the cannabis business owners' concerns with operating a viable and successful cannabis business in the City.

Discussion

Since adopting the Cannabis Ordinance, other surrounding cities as well as Riverside County have allowed cannabis uses within their jurisdiction which has created a competitive market for the cannabis businesses in Lake Elsinore. Due to the growing competition, stringent land use regulations and permitting requirements, and costs associated with operating and managing a cannabis business – the businesses have expressed concerns with their ability to remain in operation.

The Cannabis Subcommittee reviewed these concerns and directed staff to amend the Cannabis Ordinance and DAs to alleviate these issues while still ensuring compatible land uses and protecting the general welfare and safety of the community. The proposed DA amendments also include revisions to the definitions and general provisions. All other terms and provisions of the previously adopted DA would remain unchanged and would still be applicable.

The following is a summary of the proposed DA amendments:

- **Revised CBF for Cannabis Retail:** The CBF rate for cannabis retail would be capped at \$25 per square foot. Once the retail CBF rate reaches \$25 per square foot, the 4% annual increase will no longer be applicable.
- **Revised CBF for Cannabis Non-Retail:** The CBF rate for cannabis non-retail would be reduced to \$5 per square foot with no 4% annual increase.
- **CBF Payments:** Cannabis businesses would now have the option to pay their CBF payments in 12 (monthly) equal payments instead of a lump sum payment annually (that was due at the time of City business license renewal).
- **Floor Area Definition:** The definition of "floor area" is proposed to be revised to mean the interior gross floor area square footage of a cannabis facility. In addition, the definition would be clarified to distinguish between cannabis retail and non-retail business floor areas. This revised definition is to create a clear delineation between the types of cannabis uses within a cannabis facility for purposes of calculating a cannabis business' revised CBF.
- **Floor Plan Exhibit(s):** An updated floor plan exhibit of the cannabis facility would be included to provide a clear delineation between the retail and non-retail floor areas.

Should the City Council approve the DA and Cannabis Ordinance amendments, it is anticipated that several of the cannabis businesses would amend their conditional use permit (CUP) to modify their floor area because of the less stringent land use regulation and reduced CBF. Any future changes to the cannabis facility's floor plan layout would require an amendment to the previously approved CUP subject to the Planning Commission's review at a separate public hearing. Any CUP amendment that would revise the DA floor plan exhibit would be formalized through an Operating Memoranda pursuant to the terms of the cannabis business' DA.

Environmental Determination

The proposed project is exempt from the California Environmental Quality Act (Cal. Pub. Res. Code §§21000 et seq.: "CEQA") and the CEQA Guidelines (14 C.C.R. §§ 15000 et seq.) pursuant to Section 15301 (Class 1, Existing Facilities). Class 1 consists of the operation, repair, maintenance, permitting, leasing, licensing, or minor alteration of existing public or private structures, facilities, mechanical equipment, or topographical features, involving negligible or no expansion of use beyond that existing at the time of the lead agency's determination. The proposed projects are existing cannabis businesses which operate in fully developed sites and buildings. The proposed amendments to the businesses' development agreements would not result in new construction, additional square footage, or expansion of the existing uses.

Public Notice

Notice of the public hearing for all three (3) applications have been published in the Press-Enterprise newspaper and mailed to property owners within at least 300 feet of the subject properties. As of the writing of this report, no written comments concerning these applications have been received by staff.

Fiscal Impact

The time and costs related to the processing this application have been covered by the application fees paid for by the applicants. No General Fund budgets have been allocated or used in the processing of these applications.

Attachments

Attachment 1 – DA-2025-07 Ordinance
Exhibit A – DA Amendment with Hyperwolf
Attachment 2 – DA-2025-11 Ordinance
Exhibit A – DA Amendment with The Nugg Hubb
Attachment 3 – DA-2025-10 Ordinance
Exhibit A – DA Amendment with Roots 2 Harvest
Attachment 4 – GIS Exhibits
Attachment 5 – Public Notice Materials