

Guidance on Host Community Agreements

To be licensed, a Marijuana Establishment must execute a Host Community Agreement (“HCA”) with the municipality in which it intends to be located. *See* 935 CMR 500.101 (1)(a)(8) and (2)(b)(6).¹ This document provides guidance to municipalities and applicants so that they can work cooperatively to structure an HCA in compliance with M. G. L. c. 94G, § 3(d).

Section 3(d) of chapter 94G, states, in relevant part:

“A marijuana establishment or a medical marijuana treatment center seeking to operate or continue to operate in a municipality which permits such operation shall execute an agreement with the host community setting forth the conditions to have a marijuana establishment or medical marijuana treatment center located within the host community which shall include, but not be limited to, all stipulations of responsibilities between the host community and the marijuana establishment or a medical marijuana treatment center. An agreement between a marijuana establishment or a medical marijuana treatment center and a host community may include a community impact fee for the host community; provided, however, that the community impact fee shall be reasonably related to the costs imposed upon the municipality by the operation of the marijuana establishment or medical marijuana treatment center and shall not amount to more than 3 percent of the gross sales of the marijuana establishment or medical marijuana treatment center or be effective for longer than 5 years. Any cost to a city or town imposed by the operation of a Marijuana Establishment or medical marijuana treatment center shall be documented and considered a public record as defined by clause Twenty-sixth of section 7 of chapter 4.”

Under the statute, HCAs must include the terms necessary for a Marijuana Establishment to operate within a community. As with any agreement, terms should be negotiated between willing parties to the contract. In this context, the parties to the HCA are the owners or otherwise authorized representatives of the Marijuana Establishment and the contracting authority for the municipality. The parties should negotiate and agree to their respective responsibilities. The parties should also be aware of and abide by the constraints imposed by the plain language of M. G. L. c. 94G, § 3(d). It is clear from the statute, that the Legislature intended for a municipality to act reasonably in negotiating with a Marijuana Establishment that seeks to operate within its community. The costs and impacts of hosting a Marijuana Establishment will understandably vary from municipality to municipality and negotiated HCAs should reflect the particular impacts on the host community.

It is also important that the parties to the HCA be mindful of not only the statutory language in M. G. L. c. 94G, but also the context in which an HCA is required to be negotiated. Section 3(d) of chapter

¹ A Marijuana Establishment with multiple physical locations, such as a craft marijuana cultivation cooperative, must execute a HCA for each municipality in which it has a physical presence.

94G should be read in conjunction with M. G. L. 64H and 64N, the statutes that allow for the taxation of adult-use marijuana. Taken together, these statutes authorize and limit the assessments allowed on marijuana, marijuana products and Marijuana Establishments.

Taxes. The Legislature explicitly authorized municipalities to adopt an optional local excise tax of up to 3%, as applied to retail transactions, in addition to state sales and excise taxes.² In so doing, the Legislature established the ceiling for state-authorized taxes that may be assessed on a Marijuana Establishment:

- the 6.25% sales tax;
- the 10.75% excise tax on marijuana and marijuana products; and
- the optional 3% local tax, which may be applied to retail sales only.

Community Impact Fee. The community impact fee authorized by G.L. c. 94G, § 3(d) is optional and separate and apart from the taxes described above. To be authorized under the statute, and consistent with the decisional law on fees, a community impact fee included in an HCA must meet certain legal requirements.³ The fee charged must be in exchange for a benefit that is sufficiently specific and special to the Marijuana Establishment and assessed in such a way that it justifies assessing the cost to this limited group as opposed to the general public, even if the public sees some benefit.⁴ Moreover, the fee should be reasonably designed to compensate the municipality for the costs of providing the benefit.⁵

Accordingly, any HCA structured consistent with G. L. c. 94G, § 3(d), may include a community impact fee, provided that the community impact fee does not amount to more than 3% of the gross annual sales of the Marijuana Establishment and meets the legal requirements of permissible fees. A community impact fee included in an HCA must be more than simply called a community impact fee; it must be structured appropriately.

What are examples of required conditions?

Under section 3(d) of Chapter 94G, all HCAs should include terms that describe the conditions that the municipality and Marijuana Establishment must satisfy for that establishment to operate within that host community.

Individual conditions can vary widely. The following list should not be construed as exhaustive or exclusive, but merely serves as an illustration of conditions:

- In the case that the Company desires to relocate the Marijuana Establishment within [Name of Municipality] it must first obtain approval of the new location before any relocation

² See M. G. L. c. 64H, § 2 and M. G. L. c. 64N, §§2 and 3(a).

³ See generally *Emerson College v. Boston*, 391 Mass. 415 (1984).

⁴ *Denver St. LLC v. Town of Saugus*, 462 Mass. 651, 659-660 (2012).

⁵ *Silva v. City of Attleboro*, 454 Mass. 165, 173 (2009).

- The Company agrees that jobs created at the facility will be made available to [Name of Municipality] residents. [Municipality] residency will be one of several positive factors in hiring decisions at the facility but shall not be determinative and shall not prevent the Company from hiring the most qualified candidates and complying with all Massachusetts anti-discrimination and employment laws.
- Termination by the Company: The Company may terminate this Agreement ninety (90) days after the cessation of operations of any facility within [Name of Municipality]. The Company shall provide notice to [Municipality] that it is ceasing to operate within the [Municipality] and/or is relocating to another facility outside the [Municipality] at least ninety (90) days prior to the cessation or relocation of operations. If the Company terminates this Agreement, the final annual payment as defined in Paragraph X of this Agreement shall be paid to the [Municipality] by the Company. The Company shall pay the final annual payment to [Municipality] within thirty (30) days following the date of termination.
- A key-and-lock system shall not be the sole means of controlling access to the Marijuana Establishment. The Company agrees to implement a method such as a keypad, electronic access card, or other similar method for controlling access to areas in which marijuana or marijuana products are kept in compliance with 935 CMR 500.110.
- The Company agrees to provide a paid police detail for the purposes of traffic and crowd management during peak hours of operation, which shall include, but may not be limited to, Fridays between 3:00 pm -8:00 pm; Saturdays and Sundays.
- [Municipality] agrees to submit to the Commission, or other such licensing authority as required by law or regulation, certification of compliance with applicable local bylaws relating to the Company's application for licensure and/or operation where such compliance has been properly met, but makes no representation or promise that it will act on any other license or permit request including but not limited to Special Permit or other zoning applications submitted by the Company in any particular way other than in accordance with the municipality's governing laws.
- The [Municipality] agrees to work with the Company, if approved, to assist the Company with community support, public outreach and employee outreach programs.
- The Company agrees to work collaboratively with the Municipality and provide staff to participate in a reasonable number of Municipality-sponsored educational programs on public health and drug abuse prevention geared toward public health and public safety personnel.

The type and nature of the conditions included in an HCA are unlimited by Section 3(d) of Chapter 94G. Indeed, the only required prerequisite is that the HCA identifies the party responsible for fulfilling its

respective responsibilities under the agreement. As such, the Commission is likely to take a broad view of acceptable conditions.

What is permissible as part of a community impact fee?

Under Section 3(d), an HCA may also “include a community impact fee for the host community.” The statute does not include a definition of what constitutes a “community impact fee” and does not provide for elements of the fee, but it does impose other express limitations on any community impact fee included as part of an HCA:

1. **The community impact fee must be “reasonably related to the costs imposed upon the municipality by the operation of the Marijuana Establishment or medical marijuana treatment center.”**

There are two categories of generally acceptable types of fees: user fees and licensing or regulatory fees. A licensing or regulatory fee is based on the municipality’s authority to regulate businesses or activities. Regardless of what category it falls into, the fee charged must be in exchange for a benefit received by the Marijuana Establishment in such a way that justifies assessing the cost to that establishment, even if the public also receives some benefit.

The Commission views fees that are “reasonably related” as those that compensate the municipality for its actual and anticipated expenses resulting from the operation of the Marijuana Establishment. While some latitude is to be given to municipalities to plan for their expenses, the municipality must identify the plan specifics to justify the fee. As section 3(d) requires, it is important that the fee bears some reasonable relation to the costs of providing municipal services or other benefits and not merely be a fee without designation of its origins or justification of its amount. Moreover, there must be a proportionality between the cost or impact claimed by the community and the fee required of the Marijuana Establishment.⁶ Municipalities are cautioned against relying on fees that are simply revenue generators in negotiating with Marijuana Establishments and planning their municipal budgets, as these fees may not withstand judicial scrutiny.

Some anticipated costs that may reasonably be included in a fee of up to 3% of gross annual sales include services such as:

- Traffic intersection design studies where additional heavy traffic is anticipated because of the location of retail establishment;
- Environmental impact or storm water or wastewater studies anticipated as the result of cultivation;
- Public safety personnel overtime costs during times where higher congestion or crowds are anticipated;
- Additional substance abuse prevention programming during the first years of operation;

⁶ Koontz v. St. John’s River Water Management District, 133 S. Ct. 2686 (2013); See also Attorney General’s letter on Hanover Annual Town Meeting Warrant Articles #22 and 23 (Zoning), December 1, 2014.

- Municipal inspection costs.

The list delineated above is not intended to be exhaustive or exclusive and is merely provided as illustrative examples.

2. The HCA must limit the community impact fee to not more than 3% of the gross annual sales of the Marijuana Establishment.

The Commission emphasizes that there is a strict limitation on the amount of the community impact fee that a Municipality may collect as part of an HCA. The fee is capped at 3% of the Marijuana Establishment's gross annual sales.

Any fee that is more than 3% of gross annual sales is not a valid community impact fee. Moreover, any fee whether characterized as a fee, donation or other exaction, including any assessment above 3% of gross annual sales, must also comply with applicable law and the legal requirements discussed above. The Commission reiterates that, consistent with the statutory requirement of "reasonable relation" and case law on exactions there must be a proportionality between the cost or impact claimed by the community and the fee required of the Marijuana Establishment. As stated G.L. c. 94G, §3 (d), the community impact fee shall be reasonably related to the costs imposed upon the municipality by the operation of the marijuana establishment or medical marijuana treatment center and shall not amount to more than 3 per cent of the gross sales of the marijuana establishment or medical marijuana treatment center.

3. The community impact fee is limited to a term of 5 years.

The Commission reads this provision consistent with the plain language of the statute, which states in relevant part that "the community impact fee shall be reasonably related to the costs imposed upon the municipality by the operation of the marijuana establishment or medical marijuana treatment center and shall not...be effective for longer than 5 years." The community impact fee is strictly limited to a term of 5 years or less. Parties may consider negotiating a fee with a shorter duration. This may be particularly helpful to reaching an agreement where the parties have difficulty ascertaining specific costs and wish to revisit the community impact fee once more information relevant to the particular Marijuana Establishment is available. Both G.L. c. 94G, §3 (d) and the Commission's regulations at 935 CMR 500. 103 (4)(d) anticipate the collection and publication of additional information on the costs imposed by the operation of Marijuana Establishments.

At, or before, the conclusion of the term of the preceding community impact fee, the parties may choose to negotiate a new, optional community impact fee which shall similarly be limited to a term of 5 years or less. Regardless of whether the parties choose to negotiate a new community impact fee, the Commission interprets the strict time limitation of G.L. c. 94G, §3 (d) as extinguishing the preceding community impact fee upon the expiration of 5 years or less, whichever was originally agreed to by the parties.

Applicants for licensure as a Marijuana Establishment are strongly encouraged to seek legal advice from a licensed attorney regarding the negotiation of an HCA. Eligible licensees and applicants for licensure may be qualified to receive services through the Commission's Social Equity program. If you are a participant in the Social Equity program or are interested in learning more about the services offered as part of the Social Equity program, please contact the Commission at (617) 701-8400.