

CITY OF SANTA ROSA  
CITY COUNCIL

TO: MAYOR AND CITY COUNCIL  
FROM: DAVID GUHIN, ASSISTANT CITY MANAGER  
PLANNING AND ECONOMIC DEVELOPMENT DEPARTMENT  
SUBJECT: EXTENSION OF INITIAL CANNABIS INDUSTRY TAX RATES

AGENDA ACTION: RESOLUTION

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RECOMMENDATION

It is recommended by the Planning and Economic Development and Finance Departments that the Council, by resolution, extend the initial Cannabis Industry Tax Rates until the Council takes future action to change the rates.

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EXECUTIVE SUMMARY

On June 6, 2017, Santa Rosa voters passed a measure authorizing an ordinance establishing Cannabis Industry Tax Rates. The initial tax rates were set by resolution and went into effect 10 days after the City Clerk certified the election results. The resolution, however, stated that rates shall be set "...for a term of two years beginning the day the Ordinance goes into effect," instead of a "minimum of two years" as written in the Ordinance. The initial rates have been in effect for two years.

This item will extend the initial rates approved in Resolution RES-2017-035 until the Council takes future action to change the rates.

BACKGROUND

On March 7, 2017, the City Council received a presentation from Planning and Economic Development relative to amending the Santa Rosa City Code to add Chapter 6-10 establishing a Cannabis Industry Tax. The Council, acting on the recommendation from the Planning and Economic Development and Finance Departments, and the Medical Cannabis Policy Subcommittee, called for a special election to be held on June 6, 2017 with a ballot measure for voters to authorize the Council to implement a business tax on the cannabis industry, and to set initial rates that would go into effect should the voters approve the measure. Voters approved the measure, 77.3% to 22.7%. On July 11, 2017, the City Council adopted Resolution RES-2017-121 certifying the election, and the initial Cannabis Industry Tax Rates went into effect 10 days later.

## EXTENSION OF INITIAL CANNABIS INDUSTRY BUSINESS TAX RATES

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### PRIOR CITY COUNCIL REVIEW

March 7, 2017, item 15.2, ordering a special election, approving ballot language, permitting the filing of ballot arguments, directing the City Attorney to provide an impartial analysis, and setting initial tax rates for a two-year term, should the measure pass.

### ANALYSIS

Chapter 6-10 of the Santa Rosa City Code, known as the Cannabis Industry Tax Ordinance, is a general excise tax on the privilege of engaging in cannabis business activity in Santa Rosa. The Ordinance established a maximum tax for Commercial Cannabis Cultivation as either \$25 per square foot of cannabis cultivation area, or 8% of annual gross receipts. The Ordinance also established a tax on Cannabis Manufacturers, Distributors, and Dispensaries as a maximum of 8% of annual gross receipts.

The Ordinance specified that the City Council shall establish the rates by resolution, which provides the Council greater flexibility to raise or lower rates after a minimum two-year period.

The initial rates established by Resolution RES-2017-035, which have been in effect for two years, are as follows:

1. Cultivation Initial Rate: 2% of gross receipts or \$5.00 per square foot of cannabis cultivation area, at the taxpayer's election
2. Manufacturing Initial Rate: 1% of gross receipts
3. Distribution Initial Rate: 0% (instead subject to standard city business tax under Santa Rosa City Code Chapter 6-04)
4. Dispensaries: 3% of gross receipts (recreational only and only after state and local regulations are in place)

Staff noticed that the effective term in Resolution RES-2017-035 was different than the effective term in the Cannabis Industry Tax ordinance. The stated intent of the Ordinance was to have rates in effect for a minimum of two years and remain in effect until Council acts; however, because the Resolution setting the rates omitted the word "minimum" it is prudent to have the Council adopt a new resolution extending the initial rates until Council takes future action to change the rates.

### FISCAL IMPACT

The revenue received through the Cannabis Industry Tax Ordinance is general business tax revenue receipted into the General Fund. For FY 2019-20, \$1.3 million is budgeted for Cannabis Industry Tax revenue. If the initial Cannabis Industry Tax rates are not extended, the General Fund would not receive this revenue.

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### ENVIRONMENTAL IMPACT

This action is exempt from the California Environmental Quality Act (CEQA) because it is not a project which has a potential for resulting in either a direct physical change in the environment, or a reasonably foreseeable indirect physical change in the environment, pursuant to CEQA Guideline section 15378.

### BOARD/COMMISSION/COMMITTEE REVIEW AND RECOMMENDATIONS

Not applicable.

### NOTIFICATION

Not applicable

### ATTACHMENTS

- Resolution

### CONTACT

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