

# Commercial Cannabis Tax Ballot Measure & Ordinance

AMENDED (12/5/2016)

City Council

December 6, 2016

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# City Response to MMRSA

- In 2005, the City of Santa Rosa adopted its initial regulations for Medical Cannabis Dispensaries
- 2016 - City Council Priority - Medical Cannabis Policy Development
- January 19, 2016 - Council initiated a **comprehensive policy** effort and reconvened Medical Cannabis Policy Subcommittee.
- February 23, 2016 - Council adopted an interim ordinance allowing commercial **cultivation** with a Conditional Use Permit.
- August 2, 2016 - Council directed the Zoning Administrator to issue a Zoning Code Interpretation to address: **manufacturing, testing, distribution and transportation**

## **The Adult Use of Marijuana Act:**

- Passed on November 8, 2016
- Legalizes adult recreational use and commercial and personal cultivation
- Allows City & County agencies to enact local requirements
- Allows City & County agencies to authorize taxes on the commercial cannabis business



# Estimated City Costs of Supporting Cannabis Industry

- \$250,000: Code Enforcement of City business regulations
- \$200,000: Policy development and administration
- \$150,000: Legal support and oversight
- \$150,000: Public Safety
- \$150,000: Non-recoverable permit, planning and inspection costs

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~\$900,000 per year

- Current Business Tax does not support the generation of funding necessary to support industry
- Impact to general fund is anticipated if a sustainable revenue source is not identified
- County is recommending that the Board of Supervisors call a Special Election on March 7, 2017 to put a Cannabis Business Tax on the Ballot
- Council must unanimously declare a fiscal emergency in order to bring this measure to the voters for a simple majority vote

- An **excise tax** is a tax on the privilege of using or doing something with property.
  - Examples: business license tax, transient occupancy tax
- **Sales tax** is a tax on the privilege of selling tangible personal property at retail
  - Prop 64 exempts medical marijuana from state/ local sales tax
- The ordinance proposed authorizes an **excise tax** on those in the business of commercial cannabis, including cultivation, dispensaries and support businesses

# Authorization to Impose Tax

- The proposed ordinance authorizes the City to impose a Cannabis Business Tax on the commercial cannabis industry
- The proposed tax is not a sales tax and would not be imposed directly on cannabis users or consumers
- Council can set and adjust tax rates at any time, by resolution, up to the maximum set by the voters
- Staff proposes to bring recommended initial tax rates to the Council with revised ordinance in February 2017

# Proposed Cannabis Business Tax Authorization

## **Cultivation (Maximum)**

- \$38 per square foot, adjusted by CPI
- Or
- 10% of gross receipts

## **Other Cannabis Businesses (Maximum)** – *Manufacturing, Testing, Distribution, Transportation, Dispensaries*

- 10% of gross receipts



## **“Santa Rosa Cannabis Industry Tax Measure.”**

Shall an ordinance be adopted authorizing a cannabis business tax in the City of Santa Rosa on cultivation up to \$38 per square foot (annually adjusted by CPI) or 10% of gross receipts, and on other cannabis businesses up to 10% on gross receipts, to maintain financial stability for city services such as addressing cannabis industry impacts, public safety, affordable housing, and youth programs, with all funds subject to audits and staying local, generating undetermined revenue until repealed?

# Factors Affecting Timing

- Cost of special election: Holding a March and June election would be considerably more than sharing costs with a potential second local ballot initiative in June.
- The estimated tax revenue from the cannabis businesses expected to be in operation between March and June would not exceed the extra cost of the 2<sup>nd</sup> election.
- The City's draft comprehensive cannabis industry regulations are anticipated to be completed in early 2017 resulting in council consideration in June/July 2017

# Recommendation

*(Revised 12/5/2016)*

It is recommended by the Planning and Economic Development and Finance Departments that the Council continue item 14.3 to a regular meeting in February 2017, and direct staff to revise the resolution to submit the Cannabis Industry Tax Measure to the Santa Rosa Voters at a special election on June 6, 2017