

CITY OF SANTA ROSA
CITY COUNCIL

TO: MAYOR AND CITY COUNCIL
FROM: DAVID GUHIN, DIRECTOR
PLANNING AND ECONOMIC DEVELOPMENT

SUBJECT: RESOLUTION OF THE COUNCIL OF THE CITY OF SANTA ROSA APPROVING ARGUMENT IN SUPPORT OF BALLOT MEASURE TO ENACT AN ORDINANCE OF THE CITY OF SANTA ROSA ADDING CHAPTER 6-10 TO THE SANTA ROSA CITY CODE AND AMENDING CHAPTER 6-04 OF THE SANTA ROSA CITY CODE TO IMPOSE A CANNABIS INDUSTRY TAX ON CANNABIS BUSINESSES OPERATING IN SANTA ROSA.

AGENDA ACTION: RESOLUTION

RECOMMENDATION

It is recommended by the Council ad hoc committee that the Council adopt a Resolution approving argument in support of ballot measure to enact an Ordinance of the City of Santa Rosa adding Chapter 6-10 to the Santa Rosa City Code and amending Chapter 6-04 of the Santa Rosa City Code to impose a cannabis industry tax on cannabis businesses operating in Santa Rosa.

EXECUTIVE SUMMARY

On February 14, 2017, in anticipation of the possible cannabis tax ballot measure and in accordance with Elections Code sections 9282 and 9287, the Council authorized the appointment of a Council ad hoc subcommittee to draft the argument in support of the proposed measure, subject to approval by the full Council. On February 14th, the Council also authorized the ad hoc committee to prepare and submit, without need for further Council approval, a rebuttal argument, if needed.

On March 7, 2017, Council unanimously approved placing the cannabis tax measure on the June 6, 2017 ballot. The ad hoc subcommittee has prepared a draft argument in support of the measure for the Council's consideration. The deadline to submit an argument in support of the ballot measure is March 20, 2017 and deadline to submit a rebuttal if necessary is March 30, 2017.

BACKGROUND

On November 5, 1996, the California State election passed ballot measure Proposition 215, known as the “Compassionate Use Act,” legalizing medical use of cannabis. In the fall of 2015, the State legislature enacted and the governor signed into law the Medical Cannabis Regulation and Safety Act (MCRSA), establishing a state licensing framework and authorizing local regulation of medical cannabis. Over the past year, the Council’s Medical Cannabis Policy Subcommittee has been working with staff and with cannabis industry stakeholders to develop comprehensive policies to regulate medical cannabis businesses within the city limits.

On November 8, 2016, the California State election passed ballot measure Proposition 64, known as “the Adult Use of Marijuana Act.” Proposition 64 legalized adult recreational use of cannabis and brings businesses that support that use into a regulated market. Proposition 64, like state laws regulating medical cannabis, allows the City of Santa Rosa to enact local regulations on the cannabis industry in addition to the regulations that will be imposed by the state.

With the passing of Proposition 64, the enactment of MCRSA and the City’s existing and anticipated cannabis regulations, the City of Santa Rosa anticipates incurring substantial costs associated with the newly-legalized cannabis industry, including considering, adopting and enforcing regulations, administering associated business permits, providing for business inspections, supporting public safety, protecting the environment, providing economic development analysis and review to support policy decisions and education/outreach to the industry and providing information and educational materials to the community. The City’s current business tax ordinance, which applies to all businesses operating in Santa Rosa, does not allow the City to impose a high enough tax on cannabis businesses to generate the necessary financial resources to support the unique needs of this emerging industry. Expenditures are estimated to be a total of at least \$1,000,000 annually.

In response to those fiscal concerns, on March 7, 2017, the Council unanimously approved placing a cannabis tax measure on the June 6, 2017 ballot, entitled “Ordinance of the Voters of the City of Santa Rosa, State of California, Adding Chapter 6-10 to the Santa Rosa City Code and Amending Chapter 6-04 of the Santa Rosa City Code to Impose a Cannabis Industry Tax on Cannabis Businesses Operating in Santa Rosa.” Under that measure, Council would have the authority to set and adjust tax rates in two year terms by resolution, within the caps established by the voters. The measure permits Council the discretion to set different tax rates for businesses supporting medical cannabis use than the rates set for businesses supporting adult recreational cannabis use, in addition to setting a tax rate for some business types and not others. The City will continue to work with industry stakeholders and residents to review and develop a successful financial and policy framework for setting and adjusting the cannabis business tax rate within the limits set by the voters.

The City recognizes that businesses will be bearing many initial costs as they adjust to the new legal environment and adhere to State of California regulations. As such, the

ADOPTION OF AUTHORIZATION TO IMPOSE CANNABIS TAXATION
PAGE 3 OF 5

initial tax rates set by Council resolution on March 7th are intended to secure funding for the needs of the community, while not overburdening the market. Staff will continue to monitor the economic impact of the industry and its effect on overall business climate in the city to evaluate and report to the Council. In coming years, tracking and tracing industry trends will provide crucial data on gross revenues generated at various points in the supply chain, thereby enabling the Council to better confirm what taxation rates are the most appropriate.

On February 14, 2017, in anticipation of the possible cannabis tax ballot measure and in accordance with Elections Code sections 9282 and 9287, the Council authorized the appointment of a Council ad hoc subcommittee to draft the argument in support of the measure. The language of the argument is subject to approval by the full Council and is set forth below. On February 14th, the Council also authorized the ad hoc committee to prepare and submit, without need for further Council approval, a rebuttal argument, if needed.

The proposed ballot argument is as follows:

“Measure __ will allow Santa Rosa to impose a tax on medical and recreational cannabis businesses operating within the City now that the State has enacted the Medical Cannabis Regulation and Safety Act (MCRSA) and the voters have approved Proposition 64, the Adult Use of Marijuana Act. Measure __ will ensure that the city has the resources to properly support and regulate the cannabis industry without hurting our investment in core city services, such as neighborhood infrastructure and public safety.

Over 40 Cities and Counties in California have enacted a similar tax for cannabis businesses to address the inherent strain on the local agencies budgets caused by cannabis legalization. Recently the City of Santa Rosa began issuing permits for medical cannabis businesses and has identified areas where additional resources are needed to continue the support of this new industry.

Measure __ is fiscally responsible, timely, and prudent. Over the past year, the City of Santa Rosa has addressed critical issues such as housing, homelessness and our aging road infrastructure and has had to make key investments from a limited pool of resources. By proactively establishing a tax on cannabis activity, the city’s budget will be protected from any new or unexpected costs associated with cannabis legalization and permitting, and protect resources for investment in other key priorities.

Measure __ was carefully crafted with input from the industry in a public forum to find the right balance between generating the revenue needed while addressing

ADOPTION OF AUTHORIZATION TO IMPOSE CANNABIS TAXATION
PAGE 4 OF 5

certainty for this emerging industry. Adoption of a clear, fair and easy to follow legal framework will encourage cannabis businesses to join the regulated market, ensuring protection for consumers, the environment and public health.

With unanimous support from the Santa Rosa City Council, we respectfully request a Yes vote on Measure ____”

FISCAL IMPACT

Currently, all costs that the City will incur in connection with adopting, implementing and enforcing regulations for the cannabis industry in Santa Rosa, will be funded by the General Fund. As stated above, staff estimates these costs to be at least \$1,000,000 annually. The proposed ballot measure submitted to the voters, if approved, would give the City Council the authority to shift those costs to the cannabis businesses operating in the City.

According to the County of Sonoma, based on the 89,728 currently registered voters in Santa Rosa, placing the proposed ballot measure on the ballot will cost the City approximately \$400,000, or \$4.50 per registered voter. By having two local measures on the ballot, many of the costs incurred in holding the election, including mailing, could be shared between the measures and thus reduce the cost of holding two separate elections. On March 7, 2017, the Council voted to add both items to the June 6, 2017 ballot to ensure this cost savings.

Funding for the cost of the two ballot measures scheduled for a June 6, 2017 election is included in the FY 2016-17 amended budget.

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

The appointed ad hoc committee met on March 6, 2017 to develop the attached ballot argument.

ATTACHMENTS

- Resolution Approving Argument in Support of Ballot Measure

ADOPTION OF AUTHORIZATION TO IMPOSE CANNABIS TAXATION
PAGE 5 OF 5

CONTACT

David Guhin, Director Planning & Economic Development, dguhin@srcity.org, (707)
543-4299