

# Modification of Cannabis Tax Ordinance

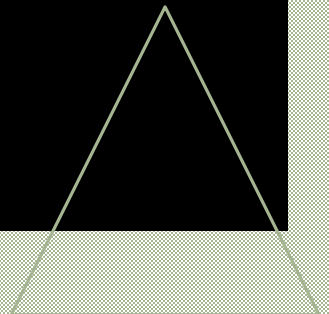




# Background

- November, 2016, Measure L passed
- Created maximum tax rate for cannabis uses

Business Type	Tax Rate
Cultivation	\$20/square foot
Manufacturing	2.5% gross receipts
Retail	10% (set at 7%)



# Why Now?

**City is in the middle of  
permitting for new  
cannabis retail,  
cultivation, processing,  
distribution, delivery  
and manufacturing  
businesses**

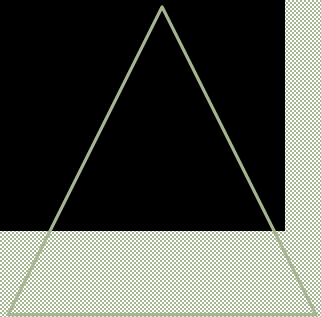
City's tax rates must be  
competitive with nearby  
jurisdictions:

- 1 - reduce black market
- 2 - allow local businesses to  
compete



# Process

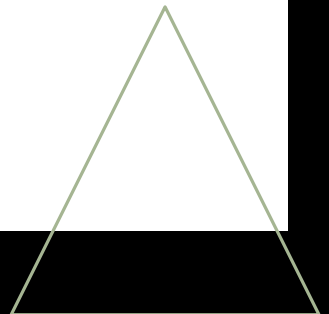
WMC Chapter 3-6.1 232 allows modifications to the Cannabis Tax Ordinance for the following:

- (a) ***Decrease tax rate***
  - (b) Increase tax rate but no more than maximum limit adopted by voters
  - (c) ***Clarifications to administration of the tax, as long as a new tax is not created***
  - (d) Establish an exempt class of people from the tax; or
  - (e) The collection of the tax imposed by this chapter, even if the City had, for some period of time, failed to collect the tax.
- 



# Current Cannabis Tax Rate

Type of Business	Tax Rate
Cultivation	\$20/square foot
Manufacturing	2.5%
Retail Sales	7%



## Cannabis Taxes in Nearby Jurisdictions

	Cultivation	Nursery	Retail	Manufacture
<b>Watsonville</b>	\$20/sf	\$20/sf	7%	2.5%
<b>Salinas</b>	\$15/sf	NA	5%	5%
<b>Marina</b>	5%	5%	5%	5%
<b>Hollister</b>	\$7/sf	5%	5%	5%
<b>Santa Cruz County</b>	6%	7%	7%	6%
<b>Monterey County</b>	\$8/sf	\$1/sf	4.5%	3.5%
<b>City of Santa Cruz</b>	6%	6%	7%	6%

# Cultivation Tax

Cannabis Business Type	Current Rate	Proposed Rate
Flowering Canopy	\$20/sf	\$10/sf
Nursery/Immature Plants	\$20/sf	\$1/sf
Processing	NA	NA



## Cannabis Cultivation: Proposed Structure

Cultivation	#Sites	Avg SF	Canopy area (80%)	Nursery area (20%)	Cultivation tax @ \$10/sf	Nursery Tax @ \$1 /sf	Total Revenue
Scenario 1	6	5,000	4,000	1,000	\$240,000	\$6,000	\$246,000
Scenario 2	6	11,000	8,800	2,200	\$528,000	\$13,200	\$541,200
Scenario 3	6	22,000	17,600	4,400	\$1,056,000	\$26,400	\$1,082,400



# Retail Sales

## Retail Cannabis Taxes in Nearby Jurisdictions

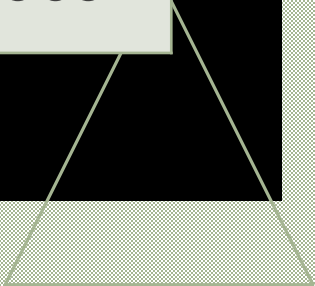
	Retail
<b>Watsonville</b>	7%
<b>Salinas</b>	5%
<b>Marina</b>	5%
<b>Hollister</b>	5%
<b>Santa Cruz County</b>	7%
<b>Monterey County</b>	4.5%
<b>City of Santa Cruz</b>	7%


*Estimated annual revenue with 5% tax would be \$266,227-\$582,785 per year from 3 dispensaries*




## Estimated Annual Tax Revenue

Business Type	# Permits	Proposed Rate	Revenue- Low End	Revenue- High End
Cultivation	6	\$10/sf	\$246,000	\$1,082,400
Nursery	6	\$1 /sf	\$6,000	\$26,400
Processing	2	2%	\$3,600	\$40,000
Manufacturing	15	2.5%	\$900,000	\$900,000
Retail	3	5%	\$266,227	\$582,785
Total			\$1,418,227	\$2,591,585





Department	Portion of Tax Revenue	Low-End	High-End
Police Department – Personnel	20%	\$283,645	\$518,317
Fire Department – Personnel	15%	\$212,734	\$388,737
Community Development Department – Personnel	20%	\$283,645	\$518,317
Parks and Community Services – Personnel	15%	\$212,734	\$388,737
Parks and Community Services - Programming	10%	\$141,822	\$259,158
Library – Personnel and Resources	8%	\$113,458	\$207,326
Non Profit Grants – Recipients Determined by Council	12%	\$170,187	\$310,990





# Staff Recommendation

1. Amend Chapter 3-6 to adjust cannabis tax rates as follows:
    - 5% tax on gross receipts for retail cannabis; and
    - \$10 per square foot tax of canopy area for cannabis cultivation; and
    - \$1 per square foot tax of canopy area for cannabis nurseries and immature plants; and
    - Remove the definition of Processing and the 2% processing tax rate for cannabis processors,
  2. Amend Chapter 3-6 text to meet current state regulations and best practices.
- 