



County of Monterey

Board of Supervisors
Chambers
168 W. Alisal St., 1st Floor
Salinas, CA 93901

Board Report

File #: ORD 23-003, **Version:** 1

Adopt an ordinance amending Chapter 7.100 (Commercial Cannabis Business Tax) of the Monterey County Code to reduce the commercial cannabis business tax rates for cultivation activities retroactive to January 1, 2023.

RECOMMENDATION:

Staff recommends that the Board of Supervisors:

Adopt an ordinance amending Chapter 7.100 (Commercial Cannabis Business Tax) of the Monterey County Code to reduce the commercial cannabis business tax rates for cultivation activities retroactive to January 1, 2023.

SUMMARY/DISCUSSION

The County imposes an annual business tax on cannabis businesses under Monterey County Code (MCC) Chapter 7.100. That tax is collected by the Treasurer-Tax Collector (TTC). At the November 8, 2022, Board of Supervisors (Board) meeting, the Cannabis Program (Program) was directed to schedule a Special Cannabis Committee (Committee) meeting in November and request time at a subsequent Board meeting to present Committee recommendations on proposed amendments to commercial cannabis cultivation business tax rates. Additional direction was provided to include a concept discussed at a prior Committee meeting-scaled tax rates driven by wholesale pricing-within the proposed cultivation tax rate amendments.

On December 7, 2022, the Program presented an item to the Board on the sliding scale cultivation tax rate concept, which would begin at rates that would offset Program costs based on current cultivation canopy registrations. The Board approved a reduction in tax rates imposed upon cultivation activities retroactive to January 1, 2023, but directed staff to increase the proposed rates by 15%, which is intended to serve as a buffer for additional business closures or operators defaulting on their taxes. Below are the rates updated to updated rates that include this buffer:

- Indoor \$2.13/square foot
- Mixed Light \$1.46/square foot
- Nursery \$0.71/square foot
- Outdoor \$0.71/square foot

This option does not present operational challenges to the TTC, as the proposed effective date coincides with the first day of the third fiscal quarter of Fiscal Year 2022-2023 and aligns with established quarterly reporting start dates.

After adjusting for these reductions, commercial cannabis business tax revenue estimates for cultivation activities in FY 22-23 would be reduced from \$7.25m to \$5.26m. This estimate should not be considered static, as it is subject to changes resulting from cultivation canopy modifications and business closures throughout the fiscal year.

This option will have budgetary impacts from the perspective of how the Recommended Budget is built. At the

same Board meeting in December, staff proposed reductions to the Program budget. The Program requested the Human Resources Department (HRD) evaluate the proposed position changes to determine potential workforce impacts. Below are their findings.

- For the cannabis position changes, most of the departments indicate they will identify alternative funding to retain the positions in their department. For one department position, the department has requested to keep the position as unfunded and unfilled until alternative funding can be identified. For one department position, the department has requested to eliminate the position and fill a vacancy in the same classification in another unit.
- HRD has determined, with the current proposed list for cannabis related position changes, there will be no reduction in force impacts to employees.

These proposed reductions were approved by the Board with an effective date of February 1, 2023. Funding for the balance of FY 22-23 will be absorbed within the budgets of affected departments while allocations for Public Health initiatives related to youth prevention/intervention and public awareness will be funded through the Cannabis Tax Assignment.

The ordinance was introduced for its first reading on January 31, 2023 and is currently before the Board of Supervisors for final adoption. Redlined and clean versions of the Ordinance are attached to this report as Attachments A and B, respectively.

OTHER AGENCY INVOLVEMENT:

The Office of the County Counsel was involved in the preparation of this report and approved the draft Ordinance as to form.

FINANCING:

The proposed amendments to Chapter 7.100 will reduce commercial cannabis business tax revenue estimates for cultivation activities in FY 22-23 from \$7.25m to \$5.26m.

BOARD OF SUPERVISORS STRATEGIC INITIATIVES:

The Monterey County Cannabis Program addresses each of the Strategic Initiative Policy Areas that promote the growth of a responsible and legal Monterey County cannabis industry.

Mark a check to the related Board of Supervisors Strategic Initiatives

- X Economic Development
- X Administration
- X Health & Human Services
- X Infrastructure
- X Public Safety

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Approved by: Nicholas E. Chiulos, Assistant CAO

Attachments:

- A. Draft ordinance (redline version)
- B. Draft ordinance (signed clean version)

