



Monterey County

Board Report

Legistar File Number: 22-921

Item No.

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

October 06, 2022

Introduced: 9/27/2022

Current Status: Agenda Ready

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Matter Type: General Agenda Item

- a. Receive a report on commercial cannabis manufacturing business activity and related commercial cannabis revenue in the unincorporated area of Monterey County;
- b. Review staff recommendations to amend the commercial cannabis manufacturing tax rate;
- c. Direct staff to prepare a report to the Board of Supervisors on the Committee's recommendation regarding an amended rate for commercial cannabis manufacturing; and
- d. Provide further direction as appropriate.

RECOMMENDATIONS:

It is recommended that the Board of Supervisors Cannabis Committee:

- a. Receive a report on commercial cannabis manufacturing business activity and related commercial cannabis revenue in the unincorporated area of Monterey County;
- b. Review staff recommendations to amend the commercial cannabis manufacturing tax rate;
- c. Direct staff to prepare a report to the Board of Supervisors on the Committee's recommendation regarding an amended rate for commercial cannabis manufacturing; and
- d. Provide further direction as appropriate.

SUMMARY/DISCUSSION:

In July 2016, the Board of Supervisors (Board) adopted Monterey County Code 7.100, which established an initial commercial cannabis gross receipts tax rate of 5% for all non-cultivation activities. In July 2018, the Board adopted an ordinance to establish a specific manufacturing gross receipts tax rate of 2.5%. In July 2019, the automatic escalator amended the commercial cannabis manufacturing gross receipts tax rate to 3.5%, which is the current rate. The rates imposed on manufacturing activities by nearby jurisdictions range from 2% to 10% and can be referenced in Attachment A. In May 2020 and May 2021, respectively, the Board suspended automatic annual escalators. In March 2022, the Board adopted an ordinance to permanently remove automatic increases.

The local commercial cannabis industry is primarily cultivation oriented, representing 81% of total state licenses for the unincorporated Monterey County area. Processing and distribution follow at 7%, while manufacturing makes up just 2% of licenses within the unincorporated area. There are nine Type-6 (non-volatile extraction methods) licenses and 2 are being utilized. There are two Type-7 (volatile extraction methods) licenses and 1 is being utilized.

To remain competitive, staff is proposing that the Committee consider reducing the current manufacturing tax rate from 3.5% to 1% - 2%. This may incentivize those who hold active state licenses to complete local requirements and begin operations. This may also attract new businesses to the jurisdiction. Despite lowering the tax rate, either outcome would likely result in increased

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incremental manufacturing tax revenue by incentivizing manufacturing. Additional manufacturing would also help diversify commercial cannabis activities within the jurisdiction, which could benefit cultivators by increasing competitive options for value-added service providers and reducing supply chain miles. Commercial cannabis manufacturing gross receipts for the past two years have been minimal. In FY 20-21, the County collected \$46,346 and in FY 21-22, the County collected \$12,558.

OTHER AGENCY INVOLVEMENT:

No other departments were involved in the preparation of this report.

FINANCING:

Monterey County's Cannabis Program is funded in County Administrative Office - Department 1050, Intergovernmental and Legislative Affairs Division - Unit 8533, Cannabis. The proposed recommendations will not incur additional expenses to the Program and has the potential to create new sources of commercial cannabis manufacturing tax revenue.

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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Attachments:

- A. Manufacturing Tax Rates of Nearby Jurisdictions