



Monterey County

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Board Report

Legistar File Number: 16-1387

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Current Status: Consent Agenda

Matter Type: General Agenda Item

Approve amendments to the Treasurer-Tax Collector's FY 2016-17 Adopted Budget to support new County functions for issuance of business licenses and collection of taxes for commercial cannabis businesses operating in unincorporated Monterey County, as follows:

- a. Increase allocated positions to add one Management Analyst III, one Accountant III, and one Accounting Technician in Property Tax unit 1170-TRE001-8263;
- b. Increase FY 2016-17 estimated revenue and appropriations by \$228,491 in Treasurer-Tax Collector - Property Tax budget 1170-TRE001-8263 to fund salaries and benefits for new positions (\$120,353), equipment, services and supplies (\$34,323), and facility security enhancements to the County Treasury (\$73,815) **(4/5th vote required)**;
- c. Direct the County Administrative Office to incorporate approved changes in the Fiscal Year 2016-17 Adopted Budget and the Human Resources Department to implement approved changes in the Advantage HRM System; and
- d. Authorize the Auditor-Controller to increase estimated revenue and appropriations by \$228,491 in Treasurer-Tax Collector - Property Tax budget 1170-TRE001-8263 **(4/5th vote required)**

RECOMMENDATION:

It is recommended that the Board of Supervisors:

Approve amendments to the Treasurer-Tax Collector's FY 2016-17 Adopted Budget to support new County functions for issuance of business licenses and collection of taxes for commercial cannabis businesses operating in unincorporated Monterey County, as follows:

- a. Increase allocated positions to add one Management Analyst III, one Accountant III, and one Accounting Technician in Property Tax unit 1170-TRE001-8263;
- b. Increase FY 2016-17 estimated revenue and appropriations by \$228,491 in Treasurer-Tax Collector - Property Tax budget 1170-TRE001-8263 to fund salaries and benefits for new positions (\$120,353), equipment, services and supplies (\$34,323), and facility security enhancements to the County Treasury (\$73,815) **(4/5th vote required)**;
- c. Direct the County Administrative Office to incorporate approved changes in the Fiscal Year 2016-17 Adopted Budget and the Human Resources Department to implement approved changes in the Advantage HRM System; and
- d. Authorize the Auditor-Controller to increase estimated revenue and appropriations by \$228,491 in Treasurer-Tax Collector - Property Tax budget 1170-TRE001-8263 **(4/5th vote required)**

SUMMARY:

Requested actions provide the Treasurer-Tax Collector with necessary internal resources, including facility and security enhancements in the County Treasury and three new positions to develop, implement and administer new commercial cannabis business license and tax collection functions and manage increased workload.

DISCUSSION:

On July 19, 2016, the Board of Supervisors adopted ordinances providing for commercial medical cannabis operations in unincorporated Monterey County. The Board also recognized that County implementation of commercial marijuana business regulations will impact workload and services in involved departments. To support projected compliance review, enforcement costs, and demands on County services, the Board adopted Ordinance 5274 adding Chapter 7.100 to the Monterey County Code to impose a general tax on commercial cannabis businesses in unincorporated Monterey County, subject to voter approval. The commercial cannabis business tax is estimated to increase the County’s general purpose revenue by at least \$30 million per year. The ordinance, approved by a majority of voters on November 8, 2016, authorizes the County Treasurer-Tax Collector (TTC) to enforce and administer taxation requirements.

The TTC is responsible for collections of countywide property taxes and unincorporated County transient occupancy taxes (TOT), which account for the County’s primary sources of non-program, discretionary revenue. Workloads for TTC staff have no capacity to “absorb” new programs and tasks without impacting current collections activities. The TTC is requesting three additional positions, funded by estimated increased revenue collections, to support new operational requirements including increased cash handling, reporting and oversight responsibilities related to development, implementation, and ongoing maintenance of programs for the issuance of business licenses and collection of new commercial cannabis business taxes. Assuming a March 1, 2017 effective date, requested positions and FY 2016-17 salaries and benefits costs for the last four months of the fiscal year include the following:

<u>Class Code</u>	<u>Title</u>	<u>Add</u>	<u>Salary & Benefits</u>
14C31	Management Analyst III	1.00	\$ 47,594
20B12	Accountant III	1.00	\$ 43,923
80J30	Accounting Technician	<u>1.00</u>	<u>\$ 28,836</u>
		3.00	\$ 120,353

Collection of taxes for marijuana business presents unique challenges. Though eight states and the District of Columbia have legalized the sale of retail marijuana by popular vote, and at least 28 states permit medical marijuana or have decriminalized marijuana possession, the continued status of marijuana as illegal under federal law makes it difficult for local legalized marijuana businesses to access banking services. As a result, federal banking regulations force a large segment of the industry to run business on a cash basis. Even with appropriate increased staffing, the TTC’s office is challenged with developing and implementing work areas and functions that provide for safe and efficient increased cash handling. In addition to requesting new positions, the department is working with Resource Management Agency - Architectural Services to enhance internal infrastructure for the County Treasury, and increase security for employees and customers. The enhanced security project includes strengthened access restrictions, remodel of an equipment room into a secured, video-monitored customer service area, and additional security cameras. Costs for remodel and security enhancements are estimated at \$73,815. Assuming a January 13, 2017 start date, the project is estimated to be completed on April 23, 2017. Provisions of the commercial cannabis tax ordinance specify that payments are to be submitted at least quarterly, due no later than the end of the month following

the close of each fiscal quarter. Tax payments for the quarter ending March 31, 2017 are due and collectible before the end of April, 2017. Payments for the quarter ending June 30, 2017 are due and collectible before the end of July, 2017.

OTHER AGENCY INVOLVEMENT:

The Board's medical marijuana ad hoc committee recommended a framework for regulating the local marijuana industry, including the issuance of business licenses, and taxation of commercial cannabis operations. The Resource Management Agency - Architectural Services division worked with the TTC to define Treasury security enhancements and provided the estimated costs and construction timeline. The project will be initiated pending approval of funding. County Counsel has reviewed this report as to form. Human Resources received "Request to Classify" forms for the three new positions.

FINANCING:

It is anticipated that increased appropriations of \$482,331 will be offset by associated increased non-program revenue and new business license fees. Requested FY 2016-17 budget modifications include \$120,353 for salaries and benefits for three new positions, effective March 1, 2017. Expenditures for cash collection and specialized currency handling equipment and supplies, and additional telephones and desk top computer systems for new positions, including software, licensing and installation is estimated at \$34,323. Security improvements to the County Treasury are estimated at \$73,815. Attachment A details the estimated increased FY 2016-17 and FY 2017-18 expenditures necessary to support TTC marijuana business requirements.

The Board of Supervisors adopted Ordinance 5274 adding Chapter 7.100 to the Monterey County Code to impose a general tax on commercial cannabis businesses in unincorporated Monterey County, approved by voters on November 8, 2016. The commercial cannabis tax, estimated to increase the County's general purpose revenue by at least \$30 million per year, was adopted to help offset increased County costs for regulatory requirements, enforcement issues, and increased service demands related to commercial cannabis business operations.

The annualized cost for TTC business license and commercial cannabis tax functions is estimated at \$403,424 in FY 2017-18. Assuming 150 applications in FY 2017-18, offsetting annual revenue from business license fees will total \$34,494, resulting in a need for a general fund contribution increase of \$368,930 to maintain new business license and commercial cannabis business taxation requirements.

Prepared by: Mari Beraz, Assistant Treasurer-Tax Collector, x5112

Approved by: Mary A. Zeeb, Treasurer - Tax Collector, x5015

All attachments are on file with the Clerk of the Board:

Attachment A - Estimated Expenditures and Revenue

Attachment B - Estimated Project Budget - County Treasury Facility Security Improvements

Attachment C - Estimated Facility Improvements Schedule

