



County of Monterey

Item No.30

Board Report

Board of Supervisors
Chambers

168 W. Alisal St., 1st Floor
Salinas, CA 93901

Legistar File Number: ORD 22-040

November 08, 2022

Introduced: 10/17/2022

Current Status: Scheduled PM

Version: 1

Matter Type: Ordinance

Introduce, waive reading of, and set December 6, 2022 at 10:30 a.m. as the date and time to consider adoption of an ordinance amending Chapter 7.100 of the Monterey County Code to reduce the tax rate imposed upon manufacturers of commercial cannabis from 3.5% of gross receipts per fiscal year to 1.5% of gross receipts per fiscal year.

RECOMMENDATIONS:

It is recommended that the Board of Supervisors:

Introduce, waive reading of, and set December 6, 2022 at 10:30 a.m. as the date and time to consider adoption of an ordinance amending Chapter 7.100 of the Monterey County Code to reduce the tax rate imposed upon manufacturers of commercial cannabis from 3.5% of gross receipts per fiscal year to 1.5% of gross receipts per fiscal year.

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. In March 2022, the Board adopted an ordinance to permanently remove automatic increases.

Following a public comment received during a Cannabis Committee (Committee) meeting in September 2022, staff was directed to return to the Committee with a recommendation on modifications to the manufacturing tax rate. Staff returned to the Committee in October 2022 to gain direction based on their findings and recommendations.

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.

The rates imposed on manufacturing activities by nearby jurisdictions range from 2% to 10% (see Attachment A). To remain competitive, staff proposed 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

Legistar File Number: ORD 22-040

businesses to the jurisdiction. 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. Staff has determined that the proposed rate reduction would likely increase tax revenue in the aggregate by incentivizing additional manufacturing activities. Specifically, one large operator has expressed interest in relocating their manufacturing facility to the unincorporated area of Monterey County. This operator shared that their current annual gross receipts are approximately \$7,200,000, which would generate \$72,000 to \$144,000 of tax revenue according to the 1% - 2% range of reduced gross receipts rates proposed by staff.

Upon review of this information, the Committee recommended that the Board consider adoption of an ordinance that would lower the manufacturing tax rate to 1.5% of gross receipts. Redlined and clean versions of a draft Ordinance so reducing the manufacturing tax rate are attached to this report as Attachments B and C, respectively.

OTHER AGENCY INVOLVEMENT:

The Office of the County Counsel and Treasurer-Tax Collector's Office were involved in the preparation of the Ordinance and report. The Office of the County Counsel approved the draft Ordinance as to form.

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

Prepared by: Joann Iwamoto, Program Manager II

Approved by: Nicholas E. Chiulos, Assistant CAO

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Attachments:

- A. Manufacturing Tax Rates of Nearby Jurisdictions
- B. Draft ordinance (redline version)
- C. Draft Ordinance (signed clean version)

Legistar File Number: ORD 22-040
