



CANNABIS PROGRAM
MONTEREY COUNTY

Board of Supervisors Meeting
December 7, 2022

Recap of Cannabis Cultivation Tax Rates

- For context, below is a timeline of how cultivation tax rates have changed over time.

Cultivation Type	Ordinance 5274 Adopted 7/19/2016	Ordinance 5305 Adopted 7/24/2018	Ordinance 5330 Adopted 5/19/2020	Ordinance 5349 Adopted 5/25/2021	Ordinance 5355 Adopted 7/13/2021	Ordinance 5371 Adopted 3/1/2022	Ordinance 5384 Adopted 9/13/2022
Indoor	\$15.00 sq. ft.	\$8.00 sq. ft.	\$8.00 sq. ft.	\$8.00 sq. ft.	\$8.00 sq. ft.	\$7.00 sq. ft.	\$3.00 sq. ft.
Mixed Light	\$15.00 sq. ft.	\$5.00 sq. ft.	\$5.00 sq. ft.	\$5.00 sq. ft.	\$5.00 sq. ft.	\$3.00 sq. ft.	\$2.00 sq. ft.
Nursery	\$1.50 sq. ft.	\$1.00 sq. ft.	\$1.00 sq. ft.	\$1.00 sq. ft.	\$1.00 sq. ft.	\$1.00 sq. ft.	\$1.00 sq. ft.
Outdoor				\$2.50 sq. ft.	\$2.50 sq. ft.	\$1.00 sq. ft.	\$1.00 sq. ft.
Automatic Increase	Yes	Yes	No	No	No	No	No

Proposed Sliding Scale Cultivation Tax Rates

- Staff was directed to revisit scaled tax rates driven by wholesale pricing.
 - Rates begin at Program cost recovery, followed by two increments of \$500k surplus.

	Cultivation Type			
	Indoor	Mixed Light	Nursery	Total
Annualized FY 22-23 Canopy	89,965	2,831,424	1,318,501	4,239,890
Recovery Revenue	\$166,631	\$3,609,665	\$815,680	\$4,591,976
Wholesale Pricing ≤ (less than or equal to)	\$1,000	\$500		
Recovery Rate	\$1.85	\$1.27	\$0.62	
Revenue Surplus 1	\$181,437	\$3,930,405	\$888,158	\$5,000,000
Wholesale Pricing ≥ (greater than or equal to)	\$1,350	\$850		
Surplus Rate 1	\$2.02	\$1.39	\$0.67	
Revenue Surplus 2	\$199,581	\$4,323,446	\$976,974	\$5,500,000
Wholesale Pricing ≥ (greater than or equal to)	\$1,700	\$1,200		
Surplus Rate 2	\$2.22	\$1.53	\$0.74	

Strengths and Weaknesses of Scaled Tax Rates

Strengths	Weaknesses
Provides further relief to cultivators and establishes benchmark.	No comparable taxation method or outcomes to base the model upon.
The County and its cultivators would benefit as prices recover.	The information available to the Program via CCA remains contested and a consensus is unlikely. <ul style="list-style-type: none">• Only 60% of information received for October.• Operators do not update consignment pricing.• Without auditing, self-reported data may be inaccurate.
	Cost recovery cannot be guaranteed. <ul style="list-style-type: none">• Some operation may not be viable even at recovery rates.• High volume of recent business closures.• Cultivation canopy is variable.

Staff recommendations for sliding scale approach.

- Limit rate changes to once per fiscal year until the industry stabilizes.
- Board may wish to establish period for pricing to remain elevated/depressed to change.
- Board may wish to impose limit on number of changes within a fiscal year.

Conclusion

Treasurer Tax Collector Input.

- Retroactive rate changes present significant challenges to staff.
 - Limiting rate changes to be proactive would lessen the possibility for errors.
- Recommends that rate changes occur no more than once per quarter.
 - Difficult to ensure the tax system is applying the correct rate with multiple changes.

Impacts of recovery rates.

- Estimated cultivation tax revenue would decrease from \$7.25m to \$4.58m.

Cannabis Committee direction.

- The Committee did not have a recommendation.

Staff Recommends

- Approval of the proposed cost recovery rates:
 - Indoor \$1.85 per square foot.
 - Mixed-light \$1.27 per square foot.
 - Outdoor \$0.62 per square foot.
 - Nursery \$0.62 per square foot.
 - If approved, Program costs would be reduced by \$1,579,689, or approximately 26%
 - Service levels will be impacted.
- Adopting rates for remainder of FY 22-23 and through FY 23-24
 - Review pricing and rates in January 2024
 - Provides County Counsel sufficient time to review sliding scale concept.
- Modifying payment plan:
 - Reduce the required down payment from 25% to 15%.
 - Delay due date to on or before January 31, 2023.

Recommendations

- a. Review options to reduce commercial cannabis cultivation business tax rates;
- b. Direct the Cannabis Program to return to the Board of Supervisors for consideration of an amendment to Monterey County Code 7.100 with the approved amended commercial cannabis business tax rates; and
- c. Revise the formal payment plan by reducing the 25% down payment to 15% and delaying the due date to make the down payment to on or before January 31, 2023; and
- d. Provide further direction as appropriate.



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Current allocations funded by cannabis tax revenue

Dedicated	FTE Count	Staff Costs	Non-Staff Costs	Total Costs ▼
Cannabis	25.23	\$4,624,419	\$1,547,245	\$6,167,300
Non-Cannabis	6.00	\$628,168	\$249,500	\$877,668
Total	31.23	\$5,252,587	\$1,796,745	\$7,049,333

Follow up to November 2022 Board meeting:

- Staff directed to develop a Program cost reduction scenario.
 - Target cost of approximately \$4m.
 - This may be recovered through reduced cultivation tax rates.

Current Cannabis Program allocations paid by cannabis tax revenue

Department	Allocation	FTE Count	Non-Staff Costs	Staff Costs	Total Costs
Ag Commissioner	Inspector/Biologist	1.00	\$28,522	\$158,389	\$186,911
	Inspector/Biologist	0.50	\$14,261	\$78,645	\$92,906
	Weights/Measures Inspector II	1.00	\$28,522	\$158,389	\$186,911
Auditor Controller	Auditor Controller Analyst II	1.00		\$198,454	\$198,454
CAO Finance	Accountant II	1.00		\$119,728	\$119,728
CAO Membership	CA Cannabis Authority		\$273,000		\$273,000
CAO Program	Cannabis Program Manager	1.00		\$208,465	\$204,100
	Management Analyst II	1.00		\$164,072	\$164,072
	Management Analyst III	1.00		\$188,502	\$188,502
	Permit Technician II	1.00		\$133,460	\$133,460
	Program Contingency		\$501,680		\$501,680
	Senior Secretary	1.00		\$100,441	\$100,441
	Services and Supplies		\$79,187		\$79,187
CC	Deputy County Counsel	1.00		\$288,602	\$288,602
DA	Accountant III	0.50		\$71,903	\$71,903
	DA Inspector III-Civil	1.00		\$240,456	\$240,456
	Deputy District Attorney	1.00		\$296,383	\$296,383
	District Attorney Investigator III	1.00		\$240,456	\$240,456
HCD	Code Compliance Inspector II	3.00		\$433,330	\$433,330
Health	Chronic Disease Prevention Coordinator	1.00		\$132,130	\$132,130
	Environment Health Specialist IV	0.25		\$49,073	\$49,073
	Environmental Health Specialist III	3.00		\$523,323	\$523,323
	Public Awareness		\$100,000		\$100,000
	Youth Prevention/Intervention		\$125,000		\$125,000
Sheriff Office	Deputy Sheriff Operations	2.00		\$542,365	\$542,365
	Overtime for Enforcement		\$204,000		\$204,000
	Two Vehicles including equip		\$65,224		\$65,224
TTC	Accountant III	0.66		\$106,807	\$106,807
	Accounting Technician	0.66		\$73,554	\$73,554
	IT, Clerical, Exec Oversight Overhead		\$35,821		\$35,821
	Management Analyst III	0.66		\$117,493	\$117,493
	Overhead		\$92,028		\$92,028
Total		25.23	\$1,547,245	\$4,624,419	\$6,171,665

Current non-cannabis allocations paid by cannabis tax revenue

Department	Allocation	FTE Count	Non-Staff Costs	Staff Costs	Total Costs
BOS	District 3 Office Space		\$19,500		\$19,500
	Total		\$19,500		\$19,500
CAO	OES Departmental Status		\$190,000		\$190,000
	Total		\$190,000		\$190,000
DSS	MVAO Representative	1.00		\$79,086	\$79,086
	Total	1.00		\$79,086	\$79,086
HCD	Street Renaming Signs		\$40,000		\$40,000
	Total		\$40,000		\$40,000
Health	Office Assistant II	1.00		\$96,570	\$96,570
	Public Guardian	1.00		\$118,842	\$118,842
	Total	2.00		\$215,412	\$215,412
PWFP	Groundswoker II	1.00		\$104,012	\$104,012
	Park Ranger II	1.00		\$138,208	\$138,208
	Parks Aide II	1.00		\$91,450	\$91,450
	Total	3.00		\$333,670	\$333,670
Total		6.00	\$249,500	\$628,168	\$877,668

Proposed Cannabis Program Core Functions

Department	Allocation	FTE	Non-Staff Costs	Staff Costs	Total Costs
Auditor Controller	Auditor Controller Analyst II	1.00		\$198,454	\$198,454
CAO Membership	CA Cannabis Authority		\$204,750		\$204,750
CAO Program	Cannabis Program Manager	1.00		\$208,465	\$204,100
	Management Analyst II	1.00		\$164,072	\$164,072
	Management Analyst III	1.00		\$188,502	\$188,502
	Permit Technician II	1.00		\$133,460	\$133,460
	Program Contingency		\$501,680		\$501,680
	Senior Secretary	1.00		\$100,441	\$100,441
	Services and Supplies		\$79,187		\$79,187
CC	Deputy County Counsel	0.50		\$144,301	\$144,301
DA	Accountant III	0.50		\$71,903	\$71,903
	DA Inspector III-Civil	1.00		\$240,456	\$240,456
	Deputy District Attorney	1.00		\$296,383	\$296,383
	District Attorney Investigator III	1.00		\$240,456	\$240,456
HCD	Code Compliance Inspector II	2.00		\$295,859	\$295,859
Health	Chronic Disease Prevention Coordinator	1.00		\$132,130	\$132,130
	Environmental Health Specialist III	2.00		\$358,185	\$358,185
Sheriff Office	Deputy Sheriff Operations	2.00		\$542,365	\$542,365
	Two Vehicles including equip		\$65,224		\$65,224
TTC	Accountant III	0.66		\$106,807	\$106,807
	Accounting Technician	0.66		\$73,554	\$73,554
	IT, Clerical, Exec Oversight Overhead		\$35,821		\$35,821
	Management Analyst III	0.66		\$117,493	\$117,493
	Overhead		\$92,028		\$92,028
Total		18.98	\$978,690	\$3,613,285	\$4,591,976

- Core allocations to sustain the local regulatory unit:
 - Retains local framework for successful leadership and management of the licensed cannabis industry.
- Maintain collaboration with:
 - County departments.
 - State agencies.
- Coordinate efforts to:
 - Enforce state and local policy.
 - Protect health, environment, and safety of communities.
 - Foster equity within the industry.

Proposed changes to positions and non-staff costs

Department	Allocation ▲	FTE Count	Total Costs
Ag Commissioner	Agricultural Inspector/Biologist II	1.50	\$279,817
	Weights/Measures Inspector II	1.00	\$186,911
	Total	2.50	\$466,728
CAO	Accountant II	1.00	\$119,728
	CA Cannabis Authority		\$68,250
	Total	1.00	\$187,978
CC	Deputy County Counsel	0.50	\$144,301
	Total	0.50	\$144,301
HCD	Code Compliance Inspector II	1.00	\$137,471
	Total	1.00	\$137,471
Health	Environment Health Specialist IV	0.25	\$49,073
	Environmental Health Specialist III	1.00	\$165,138
	Public Awareness		\$100,000
	Youth Prevention/Intervention		\$125,000
	Total	1.25	\$439,211
Sheriff Office	Overtime for Enforcement		\$204,000
	Total		\$204,000
Total		6.25	\$1,579,689

- Proposed changes would eliminate 6.25 FTEs and non-staff costs totaling \$1,579,689
 - Equates to a 26% reduction in Program costs.
 - Service levels will be impacted.
- HRD provided the following input:
 - Majority of departments will identify alternative funding to retain positions.
 - One will retain unfunded and unfilled allocation until alternative funding found.
 - One will eliminate position and fill in another unit.
 - No reduction in force impacts to employees.

Conclusions

- Commercial cannabis industry within Monterey County and beyond remains in crisis.
 - Overproduction, insufficient retail outlets, and growing unlicensed market.
- Original intent of Measure Y didn't consider this scenario:
 - Less cannabis business tax revenue collections and reduced operations.
- Consider alternative funding source if tax revenue cannot fund Program costs.
 - May reserve Cannabis Assignment balance (\$5.8m) to fund FY 22-23 and FY 23-24.
- If the Board approves the proposed amended cultivation tax rates, the revenue will cover the Program allocations with proposed reductions.
- Variables to consider that will impact commercial cannabis tax revenue estimates:
 - Reduced square footage either through modifications or business closures.
 - Collection of commercial cannabis business tax revenue.
- The Cannabis Committee supported the proposed changes.

Recommendations

- a. Receive an update on current Cannabis Program allocations; and
- b. Review proposed changes to cannabis positions and related non-cannabis staff costs with an effective date of February 1, 2023; and
- c. Consider recommending other County resources to fund the non-cannabis staff and costs; and
- d. Consider identifying other funding sources to pay for the Cannabis Program costs if commercial cannabis business tax collections are found to be insufficient; and
- e. Provide additional direction to staff as appropriate.



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