

COUNTY OF MONTEREY



AUDITOR – CONTROLLER

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168 W. Alisal St, 3rd Fl, Salinas, CA 93901

Rupa Shah, CPA
AUDITOR-CONTROLLER

Burcu Mousa, CPA
ASST. AUDITOR-CONTROLLER

June 28, 2024

Via Electronic Mail and Hand Delivery

Honorable Stephanie Hulsey
Judge of the Superior Court
c/o Office of the County Counsel
Attention: Sandra Ontiveros
168, West Alisal Street, 3rd Floor
Salinas, CA 93901

Dear Judge Hulsey:

Pursuant to Penal Code section 933.05(f), please consider this letter as the formal response from the County of Monterey Auditor-Controller to the 2023-24 Monterey County Civil Grand Jury Final Report entitled “Cannabis Tax Revenues: Highs and Lows” transmitted on May 3, 2024.

I thank the Civil Grand Jury for their efforts and the opportunity to respond to their findings and recommendations.

Sincerely,

DocuSigned by:

Rupa Shah

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Rupa Shah, CPA
Auditor-Controller



Office of the Auditor-Controller

Response to the May 2024
Monterey County Civil Grand Jury Report

“CANNABIS TAX REVENUES: HIGHS AND LOWS”

RESPONSE TO: Findings F4, F5

FINDINGS

- F4. An internal audit of the Cannabis Program, recommended by the Citygate Report, was not completed, thus risking inefficient operating practices and the potential for inaccurate record keeping.

Response F4:
Disagree

Upon securing a resource approved by the Board in Fiscal Year 2021-22 to provide fiscal oversight over the Program, the Auditor-Controller's Office (ACO) has provided fiscal analysis, guidance, and training to County departments. The ACO assessed operating practices and record keeping, working in collaboration with the Cannabis Program Division of the County Administrative Office and all participating departments. This work resulted in updates to the accounting structure capturing relevant information accurately and in improved accounting and reporting of the Cannabis Program.

This effort provided more consistent fiscal support and oversight required of the Program negating need for an audit.

- F5. More than 50 cannabis businesses have closed or filed bankruptcy leaving the County with \$6M in unpaid taxes, resulting in reduced revenues for community services.

Response F5:
Neither agree nor disagree

The information is not attested by the Auditor-Controller's Office.

RESPONSE TO: Recommendations R4, R5

RECOMMENDATIONS

- R4. The Office of the Auditor-Controller's Internal Audit Division (IAD) conduct an internal audit on the Cannabis Program in FY 2023-24 by January 31, 2025.

Response R4:
Disagree

The Auditor-Controller's Office (ACO) Internal Audit Division develops its work plan based on an audit strategy with a potential to add value and reduce risk while working within the confines of limited audit resources. Tax revenues generated from the Cannabis Program significantly declined from approximately \$20 million in Fiscal Year 2021 to estimated \$3.5 million in Fiscal Year 2024, causing the Program to drop to a lower risk level. The suggested audit approach in the Citygate Report is not warranted currently. Furthermore, ACO's fiscal support and oversight effort (stated in response to Finding # 4) during this same period alleviated the audit need.

- R5. The Office of the Auditor-Controller's Internal Audit Division (IAD) conduct an internal audit of cannabis businesses with tax deferral payment plan agreements, including those in tax delinquency by January 31, 2025.

Response R5:
Disagree

At this time, the balance remaining to be collected on tax deferral is \$ 226,783 and pertains to a three-year payment plan offered to ten (10) operators in fiscal year 2021-22. As of June 24, 2024, the County Treasurer-Tax Collector's Office reported four (4) delinquent operators for a total of \$105,548 in unpaid taxes pertaining to the current Fiscal Year 2023-24. With this pertinent information being tracked and monitored by the County, the audit is not expected to reveal any new information. Additionally, the low combined tax deferral and delinquent balance does not raise the risk level to warrant an audit effort.



COUNTY ADMINISTRATIVE OFFICE
COUNTY OF MONTEREY

MEMORANDUM

DATE: July 10, 2024

TO: Sonia M. De La Rosa, County Administrative Officer
Nicholas E. Chiulos, Chief Assistant County Administrative Officer

CC: Ezequiel Vega, Assistant County Administrative Officer

FROM: Michelle House, Cannabis Program Manager *MH*

SUBJECT: **Response to 2023-2024 Monterey County Civil Grand Jury Report – Cannabis Tax Revenues: Highs and Lows**

Please see the following responses from the Cannabis Program regarding the Grand Jury report, titled “*Cannabis Tax Revenues: Highs and Lows.*”

FINDINGS: F1-F7

F1. Current revenues do not provide sufficient margins over expenses to fund community services at prior years' levels. Without operational changes, the Cannabis Program's sustainability is in jeopardy, and future funding for community services from this source will be minimal and/or unavailable.

Response to F1: The Cannabis Program (Program) disagrees partially with the finding.

F2. The 2020 Cannabis Program Strategic Plan, intended to be updated every two years, was not revised until January 2024, causing delays in assessing key metrics and whether program goals are being met.

Response to F2: The Program disagrees partially with the finding. The timeline of the Cannabis Program Strategic Plan and updates approved by the Board of Supervisors (BOS) and/or the Board of Supervisors Cannabis Committee (BCC):

- Initial Strategic Plan 2018:
 - Legistar File # [18-794](#) at the BCC meeting on 7/23/2018.
 - Legistar File # [18-1064](#) at the BOS meeting on 10/23/2018.
- Updated Strategic Plan 2020:
 - [Item 3](#) at the BCC meeting on 8/5/2020.
 - Legistar File # [20-660](#) at the BOS meeting on 9/22/2020.
- Updated Strategic Plan 2024
 - Legistar File # [23-636](#) at the BCC meeting on 7/28/2023.
 - Legistar File # [23-952](#) at the BCC meeting on 1/4/2024.
- The Program will schedule and plan for the Cannabis Program Strategic Plan annually as stated in Recommendation 2 below.

F3. Current tax rates have stabilized. Revenues for FY 2024-25 are projected to be consistent with prior years, contributing to the Program's sustainability if Program expenses are aligned with revenues.

Response to F3: The Program agrees with the finding. The commercial cannabis industry is still unstable. Since Fiscal Year (FY) 19-20 there have been 60 business closures (see chart below). The Program continues to receive business owner and/or financial interest holder changes, which indicates ongoing volatility and investor uncertainty. Although most operators have obtained local permits, 25 additional operators must transition to annual licensure by January 2026. The commercial cannabis industry may begin to stabilize after the provisional license sunset period filters out non-viable operators and supply and demand begins to reach equilibrium. Lastly, the downstream effects of rescheduling of cannabis from schedule I to schedule III are not yet fully understood.

Fiscal Year	# of Businesses
FY 19-20	4
FY 20-21	7
FY 21-22	8
FY 22-23	34
FY 23-24	7
Total	60

F4. An internal audit of the Cannabis Program, recommended by the Citygate Report, was not completed, thus risking inefficient operating practices and the potential for inaccurate record keeping.

Response to F4: The Program disagrees partially with the finding.

F5. More than 50 cannabis businesses have closed or filed bankruptcy leaving the County with \$6M in unpaid taxes, resulting in reduced revenues for community services.

Response to F5: The Program agrees with the finding.

F6. A community survey indicated that a high priority for cannabis tax revenues should be allocated toward drug education and prevention. However, only a small fraction of the cannabis tax revenues has been allocated toward such programs. The lack of funding for these programs is inconsistent with community priorities and increases the potential for drug abuse and death.

Response to F6: The Program disagrees partially with the finding.

In November 2016, the Monterey County voters approved Measure Y as a general tax on commercial cannabis activities. General tax revenues may be used at the discretion of the Board. The Board has allocated \$1.5m in cannabis business tax revenue for staff and non-staff costs dedicated to public awareness and youth prevention since FY 18-19.

In January 2018, the Board approved a community engagement project led by C4 Consulting. The goal of the project was to engage constituents to gain input on how the County could prioritize use of cannabis tax revenue beyond administrative costs of the Cannabis Program.

This process culminated in identifying five priority areas. Staff have reviewed Cannabis Assignment

allocations and categorized the program/service to provide the cumulative allocations by according to the five Community Priority Advocacy Rankings:

- | | |
|------------------------------|---------|
| 1. Overall County Services | \$31m |
| 2. Health | \$17.9m |
| 3. Education | \$7.7m |
| 4. Economic Self-Sufficiency | \$5.3m |
| 5. Safety | \$4.4m |

Although Health and Education rank second and third respectively, many of these costs were associated with responses to the COVID-19 pandemic.

F7. Illicit activities are one of several major factors contributing to the reduction in funds available for community needs.

Response to F7: The Program agrees with the finding. Unlicensed cannabis activities represent unfair competition to the licensed commercial cannabis industry. Unlicensed operators are not subject to the same operating requirements or taxation of licensed operators. This allows unlicensed operators to sell at lower prices than what licensed operators can sell for and remain profitable. Although this unlicensed product may be more affordable to the consumer, it comes at a much higher risk to the public. Unlicensed product is not tested for safety and is sold in uncontrolled environments. Unlicensed product represents lost sales revenue for the licensed operator and lost tax revenue at the state and local levels.

The commercial cannabis industry has faced many issues since legalization in 2016, most notably the market downturn. Because there is not a license cap at the state level and all licensed sales must occur within the State of California, operators began to experience a significant decrease in pricing as supply outpaced demand in July of 2021. Obtaining local authorization to obtain a state annual license is costly and time-consuming. Becoming compliant amidst this market correction was extremely difficult for commercial cannabis operators. The market is only recently starting to show signs of stabilization nearly three years later.

RECOMMENDATIONS: R1 – R3

R1. The BOS direct Cannabis Program staff to analyze ways to reduce expenses within the Cannabis operational system, supplementing best practices identified in the Citygate report recommendations to stabilize and grow the Cannabis Tax Assignment Fund by September 30, 2024.

Response to R1: The recommendation has been implemented since the Citygate & Associates final report was published.

- 10.75 FTEs plus non-staff costs totaling \$3.2m have been removed from the Cannabis Program since the Citygate & Associates final report was published.
 - The BOS reduced the adopted FY 22-23 Cannabis Program budget effective February 1, 2023.
 - Removed 6.25 FTEs plus non-staff costs totaling \$1.6m.
 - Legistar File #[22-1146](#) at the BOS meeting on 12/7/2022.
 - Prior to adoption, the BOS further reduced the proposed FY 23-24 Cannabis Program budget.
 - Removed 4.5 FTEs plus non-staff costs totaling \$1.6m.

- Departments assisted by identifying other funding sources.
 - Legistar File #[23-408](#) at the BOS meeting on 5/23/2023.
- In addition to these reductions in the Cannabis Program budget, the BOS removed funding for 6.00 FTEs plus non-staff costs totaling \$878k that were not dedicated to cannabis-related duties.
 - In total, 16.75 FTEs plus non-staff costs totaling \$4m are no longer funded by Cannabis Business Tax revenue.
 - This represents a 54% cost reduction from the peak in FY 22-23.

The Cannabis Program will continue to work with each department that receives cannabis business tax revenue to evaluate the services required by the commercial cannabis industry and identify opportunities to reduce allocations and/or offset with non-tax revenues as recommended in the Citygate & Associates report. Outcomes from these will be reported to the Board of Supervisors Cannabis Committee in September of 2024 and the full Board of Supervisors thereafter.

R2. Cannabis Program Manager complete a Strategic Plan every year and provide the BOS with status updates at each subcommittee meeting by January 31, 2025.

Response to R2: The recommendation has not been implemented for an annual update to the Cannabis Program Strategic Plan and will not be implemented. The Cannabis Program will present the updated Strategic Plan to the Board of Supervisors Cannabis Committee in September of 2024 and the full Board of Supervisors thereafter.

R3. The BOS support the growth and sustainability of the Cannabis industry by maintaining the current Program tax rates for the next two budget years by September 30, 2024.

Response to R3: The recommendation has been implemented. Cannabis business tax rates were reduced in January 2023 to provide tax relief to cultivators who continue to experience depressed pricing. The BOS also authorized tax payment plans for FY 21-22 and FY 22-23 with an option to extend FY 21-22 for repayment through March 2026. Over \$2m has been collected from these payment plans and 80% of cultivators with payment plans remain in business. The BOS believe these relief measures to be successful in retaining cultivators while maintaining revenues to offset the cost of the Cannabis Program.

MONTEREY COUNTY

OFFICE OF THE DISTRICT ATTORNEY
JEANNINE M. PACIONI, DISTRICT ATTORNEY



May 24, 2024

Honorable, Stephanie Hulse
Judge of the Superior Court
c/o Office of the County Counsel
Attention: Sandra Ontiveros
168 W. Alisal Street, 3rd FL
Salinas, CA 93901

Re: 2023-2024 Monterey County Civil Grand Jury Final Report – “Cannabis Tax Revenues: Highs and Lows”

Dear Judge Hulse,

This letter is written in response to the May 3, 2024, Monterey Civil Grand Jury Final Report – “Cannabis Tax Revenues: Highs and Lows” and shall serve as the Monterey County District Attorney’s formal response to that report pursuant to Penal Code sections 933 and 933.05.

The Monterey County District Attorney’s Office understands its responsibility in prosecuting illicit cannabis activities and is committed to appropriately enforcing cannabis statutes and regulations.

FINDINGS

Finding 8 - Criminal/Civil penalties for most illicit business activities may be adjudicated as a misdemeanor by the District Attorney’s office with less than a year probation and/or a fine of \$1,000 or less, resulting in an ineffective deterrent system.

California voters approved Proposition 64 in 2016, significantly reducing criminal penalties for unlicensed cannabis activities. This proposition reduced and reclassified most cannabis-related crimes from felonies to misdemeanors. Additionally, in 2021, California Assembly Bill 1950 amended state laws, reducing misdemeanor probation terms from three (3) years to one (1) year for most cannabis offenses. The District Attorney’s Office may only pursue remedies that align with these new laws. Therefore, the District Attorney currently has very little discretion to pursue felony convictions for cannabis related offenses. Despite these changes in law, the District Attorney will continue to enforce cannabis laws and regulations to the maximum extent possible as appropriate under the law.

RECOMMENDATIONS

Recommendation 9 – The District Attorney’s office in cooperation with the Cannabis Program and Sheriff/Coroner’s office increase prosecutorial efforts of unlicensed and underreporting cannabis growers to the maximum extent of the law; by using existing resources, potential grant funding, and assistance from the Cannabis Administrative Prosecutor Program (CAPP) by December 31, 2024.

The Monterey County District Attorney's Office fully supports the recommendation to increase prosecutorial efforts, in cooperation with the Cannabis Program and Sheriff/Coroner's Office. Recognizing the evolving landscape of the cannabis market in Monterey County, our office continues to renew and enhance our cannabis prosecutorial program in alignment with the observations and recommendations outlined in the Civil Grand Jury Final Report. We are actively initiating and expanding criminal prosecutions and pursuing civil penalties against those operating in the unlicensed and underreporting sectors of the cannabis market.

However, our office takes issue with the recommendation to seek assistance from the Attorney General's new Cannabis Administrative Prosecutor Program (CAPP). Nothing in the Grand Jury Final Report's facts and findings provide any information about CAPP. It is unclear to our office whether any counties in California are working with CAPP. And while little is known about CAPP, the implementation of it in Monterey County may not effectively address the concerns raised in the Civil Grand Jury Final Report's findings. Without more information, it is possible that CAPP could exacerbate the issues identified in the report, by diverting responsibility and accountability from Monterey County to Sacramento.

The Monterey County District Attorney's Office remains steadfast in its commitment to address the concerns highlighted in the Civil Grand Jury's Finding (F8) and Recommendation (R9) by aggressively pursuing felony convictions and seeking civil penalties to eradicate unlicensed and underreporting cannabis activities within our jurisdiction.

I hope that this information addresses the Monterey County Civil Grand Jury's Finding (F8) and Recommendation (R9). Please contact me directly should you have any questions or require additional information.

Respectfully,



Jeannine M. Pacioni
Monterey County District Attorney



COUNTY OF MONTEREY HEALTH DEPARTMENT

Elsa Jimenez, Director of Health Services

Administration Animal Services Behavioral Health Clinic Services
Emergency Medical Services Environmental Health Public Administrator/Public Guardian Public Health

MEMORANDUM

DATE: June 14, 2024

TO: The Civil Grand Jury

FROM: Elsa Jimenez, County of Monterey Director of Health Services

CC: Sonia De La Rosa, County Administrative Officer

SUBJECT: 2023-2024 Monterey County Civil Grand Jury Final Report – Cannabis Tax Revenues: Highs and Lows

Please see the following responses from the County of Monterey Health Department regarding Grand Jury report, “Cannabis Tax Revenues: Highs and Lows.”

FINDINGS: F1-F8

F6. A community survey indicated that a high priority for cannabis tax revenues should be allocated toward drug education and prevention. However, only a small fraction of the cannabis tax revenues has been allocated toward such programs. The lack of funding for these programs is inconsistent with community priorities and increases the potential for drug abuse and death.

Response to F6: The Board agrees with the finding.

RECOMMENDATIONS: R1 – R9

R7. The Director of Public Health identify projects to assist with youth drug awareness/education/prevention and request funding from BOS as a priority allocation from the CTF by September 30, 2024.

Response to R7: The recommendation has not been implemented but will be implemented in the future. The Public Health Director continues to promote evidence-based strategies that can reduce use of cannabis among at risk populations. Public Health will work with the Director of Health Services to consider a request for funding to the Board of Supervisors at the earliest opportunity, but no later than the Department’s Fiscal Year 2025-2026 Budget Request in March of 2025.



MONTEREY COUNTY, CALIFORNIA
SHERIFF'S OFFICE
Keeping the peace since 1850

Tina M. Nieto
Sheriff-Coroner

June 25, 2024

Honorable Stephanie Hulseley
Judge of the Superior Court
c/o Office of County Counsel
Attention: Sandra Ontiveros
168 W. Alisal Street, 3rd FL
Salinas, CA 93901

Re: Response by Sheriff-Coroner Tina M. Nieto to the 2023-2024 Monterey County Civil Grand Jury Final Report – “Cannabis Tax Revenues: Highs and Lows”

Honorable Judge Hulseley,

This letter will serve as my response to the findings and recommendations of the Civil Grand Jury in my official capacity as the Sheriff-Coroner of Monterey County.

FINDINGS AND RECOMMENDATIONS

Finding 7: Illicit activities are one of several major factors contributing to the reduction in funds available for community needs.

Response: I disagree partially with this finding.

Illicit activities will affect legal activities, but I would not consider it a major contributing factor. Annual legal cannabis sales in California have continued to decrease since the nation's biggest cannabis market launched recreational sales nearly 8 years ago. In 2022, legal sales reached \$5.3 billion, according to figures released by the California Department of Tax and Fee Administration. This is down 8.2% from \$5.77 billion in 2021. This decline has continued year after year. Much of this could be contributed to the market being flooded at the program's infancy. The statistics have also shown that more Cannabis businesses went under than succeeded in California.

To say that the illicit market is one major factor contributing to the reduction, doesn't seem to reflect the information provided in the Civil Grand Jury's report. The Monterey County Board of Supervisors have reduced the tax rates by 75% since 2018 after Monterey County Measure Y was imposed and State Proposition 64 which outlined the use of State Tax funds. A reduced tax rate coupled with the businesses failing has had a substantial impact on the funds generated from legal sales. As noted in the Civil Grand Jury's report, stricter regulations have resulted in multiple business closures, bankruptcies, and defaulting on more than 6 million in unpaid taxes. Many in the cannabis sector see the high taxes and a limited number of dispensaries as the main culprits for the decrease, viewing the legal market as broken and dysfunctional. Another contributing factor to the reduced funds available for community needs is the fact the illicit market became less profitable as the prices for cannabis fell. This could be attributed to California



MONTEREY COUNTY, CALIFORNIA
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Tina M. Nieto
 Sheriff-Coroner

still representing roughly 20% of the \$26 billion industry. I equate this to the supply and demand theory. As more legal cannabis floods the market the price will undoubtedly go down, thus less need for illicit cannabis. It is also possibly more costly to run an illicit operation now with limited avenues to pass the cost to the consumer, as they would have a cheaper legal option.

Taking into consideration, per this report over 50 cannabis businesses have closed or filed bankruptcy, coupled with a tax rate being reduced for growers by 75%, and the market being flooded by legal cannabis, one should expect the tax revenues will be lower, and in this case much lower. This can all be summed up as less illicit growth, means fewer illicit activities.


Recommendation 8: MCSO increase enforcement of the regulations regarding illicit activity by licensed and unlicensed growers by September 30, 2024.

Response: This recommendation has been implemented. The Sheriff's Office has assigned two Detectives to fulfill the current obligation for the County of Monterey Marijuana Eradication Team (COMMET). The office has also sent 14 additional Deputies to cannabis enforcement training to assist the 2 COMMET Detectives in the eradication of illicit cannabis efforts.

Recommendation 9: The District Attorney's Office in cooperation with the Cannabis Program and Sheriff/Coroner's Office increase prosecutorial efforts of unlicensed and underreporting cannabis growers to the maximum extent of the law; by using existing resources, potential grant funding, and assistance from the Cannabis Administrative Prosecutor Program (CAPP) By December 31, 2024.

Response: This recommendation requires further analysis. As noted in the recommendation the District Attorney's Office manages the prosecutorial aspect of cannabis investigations. The Sheriff's Office works in collaboration with the District Attorney focusing efforts on the investigative aspect presenting cases to the District Attorney for their review and prosecution. Additionally, the Sheriff's Office is collaborating and attending regular meetings with the District Attorney's Office and the Cannabis Program of Monterey County. All available resources and grants for this program is continually being reevaluated and researched. Analysis shall be completed prior to October 31, 2024.

Respectfully submitted,

DocuSigned by:

 Tina M. Nieto,
 Sheriff-Coroner

Cc: Sonia De La Rosa, County Administrative Officer
 Nick Chiulos, Assistant County Administrative Officer
 County of Monterey Board of Supervisors

MONTEREY COUNTY



MARY A. ZEEB
Treasurer – Tax Collector

168 West Alisal Street – 1st Floor
Salinas, CA 93901

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June 18, 2024

Honorable, Stephanie Hulsey
Judge of the Superior Court
c/o Office of the County Counsel
Attention: Sandra Ontiveros
168 W. Alisal Street, 3rd FL
Salinas, CA 93901

Re: 2023-2024 Monterey County Civil Grand Jury Final Report – “Cannabis Tax Revenues: Highs and Lows”

Dear Judge Hulsey,

Pursuant to Penal Code section 933.05(b), please find applicable responses from the Treasurer-Tax Collector’s Office.

Respectfully,

MARY A. ZEEB
Monterey County Treasurer-Tax Collector

**THE COUNTY OF MONTEREY TREASURER-TAX COLLECTOR'S RESPONSES TO THE
2023-2024 MONTEREY COUNTY CIVIL GRAND JURY FINAL REPORT
"CANNABIS TAX REVENUES: HIGHS AND LOWS**

Response to Findings F3 and F5

Finding F3: Current tax rates have stabilized. Revenues for FY 2024-25 are projected to be consistent with prior years, contributing to the Program's sustainability if Program expenses are aligned with revenues.

Treasurer-Tax Collector's Response to F3: Respondent partially agrees with this finding. The cannabis program will be sustainable if expenses are aligned with revenues. Respondent is not able to respond to this finding to the extent that it projects commercial cannabis business tax revenues for FY 2024-2025 in relation to prior fiscal years because there are a number of variables that impact tax revenues.

Commercial cannabis business tax is an annual tax which is due and payable in quarterly installments. The Treasurer-Tax Collector's office sends annual billing statements to cultivation operators based on the square footprint of canopy indicated on the operators' annual permit. However, operators are authorized under Monterey County Code Section 7.90.070 to modify the canopy allowed by the permit twice during the permit's annual term. In addition, the commercial cannabis business tax for dispensaries is based on reported gross receipts. These values are self-reported and not reported until the month following the close of each fiscal quarter. Business closures or changes to the commercial cannabis business tax ordinance implemented by the Board of Supervisors during the fiscal year can also impact projected commercial cannabis business tax revenues.

Finding F5: More than 50 cannabis businesses have closed or filed bankruptcy leaving the County with \$6M in unpaid taxes, resulting in reduced revenues for community services.

Treasurer-Tax Collector's Response to F5: Respondent agrees that approximately 50 commercial cannabis businesses have ceased operations since the inception of the commercial cannabis business tax in the county. There remains an uncollectable balance of commercial cannabis business tax for such businesses of approximately \$6 million (exclusive of penalties and interest). Uncollectable commercial cannabis business tax results in reduced general fund revenues available for board allocation.

Response to Recommendations R5-R6

Recommendation R5: The Office of the Auditor-Controller's Internal Audit Division (IAD) conduct an internal audit of cannabis businesses with tax deferral payment plan agreements, including those in tax delinquency by January 31, 2025.

Treasurer-Tax Collector's Response to R5: The recommendation for the Auditor-Controller's Internal Audit Division (IAD) to conduct an internal audit of cannabis businesses with active payment plan agreements has not yet been implemented. The Treasurer-Tax Collector's Office stands ready to assist the Auditor-Controller's Office with this process once implemented by that department.

Recommendation R6: *The Treasurer-Tax Collector Office develop a timely action plan for those growers in arrears and recommend to the BOS to consider phasing out further tax payment extensions by November 30, 2024.*

Treasurer-Tax Collector’s Response to R6:

The recommendation that the Treasurer-Tax Collector develop a timely action plan for growers in arrears has been implemented to the extent that liens are routinely recorded against operators with a delinquent balance each quarter.¹ The Treasurer-Tax Collector routinely reports delinquent operators to the Cannabis Program for enforcement which can ultimately result in the revocation of the operator’s business permit. The Treasurer-Tax Collector’s office can also revoke a commercial cannabis business operator’s business license for failure to pay business property taxes or business license taxes, fines or penalties associated with the business when due and payable.²

The recommendation that the Treasurer-Tax Collector recommend to the Board of Supervisors to consider phasing out further tax payment extensions by November 30, 2024, has not been implemented because Resolution 23-172³ provides an end date for the previously authorized conditional waiver of penalties. Resolution 23-172 extended the previously authorized conditional waiver of penalties and resumed interest in the amount of one- and one-half percent (1.5%) on unpaid installments of the annual commercial cannabis cultivation business tax for the second through fourth quarters of Fiscal Year 2021-2022 for operators seeking to extend their payment plan, provided the full amount due is received by the Treasurer-Tax Collector on or before March 31, 2026. The Treasurer-Tax Collector is not aware of any further tax payment extension proposals pending.

¹ Monterey County Code Section 7.100.160

² Monterey County Code Section 7.02.160.

³ Resolution 23-172 was passed and adopted on May 2, 2023.