

MONTEREY COUNTY



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November 17, 2021

To: Board of Supervisors Cannabis Committee

Fr: Joann Iwamoto, Cannabis Program Manager

Re: County-Industry Subcommittee on Commercial Cannabis Tax Structure and Rates

The Cannabis Program (“Program”) meets with industry members each month to discuss current topics, including areas they feel are going well, those that have improved, and challenges that remain. For many months, industry members have raised the topic of commercial cannabis tax structure and rates. At the industry’s request, the Program coordinated a “County-Industry Subcommittee” specifically designed to discuss the current commercial cannabis tax structure and rates.

The Subcommittee first met on October 28, 2021. Participants included four industry business operators, three local attorneys/consultants, and four County staff members. This initial meeting was to discuss a proposed meeting schedule and the goals/objectives of this Subcommittee. The Program has scheduled two monthly follow-up meetings.

The industry expressed these critical concerns:

- Wholesale Price Points
 - In the past months, local wholesale price points have trended downward, and industry fears an additional, significant correction may be looming statewide.
 - Supply and demand issues persist statewide.
 - Given the above, it is difficult to remain competitive, even with proven, favorable cannabis growing conditions in the County.
- Immediate Relief
 - Industry proposes some form of immediate relief from the commercial cannabis tax, either in a rate reduction, a stay on penalties if the account is delinquent, or the removal of the escalator.

The Program provided the following for the Subcommittee members to review as they regroup with industry members and prepare for our next meeting scheduled for November 18, 2021:

- Cannabis Program Strategic Initiatives, Mission Statement and Goals.

- Specific review of Goal Number 4, “Generation of commercial cannabis tax revenue to support the program and services to the public.”
- Board of Supervisor Board Report, Legistar File Number 18-418 and Attachments.
 - This report provides the outcomes of the individual district focus groups and the surveys conducted to receive input on how the commercial cannabis tax revenue could be allocated for public services. (Attachment A)
- Board of Supervisors Cannabis Assignment Summary by Fiscal Year.
 - These summaries detail the allocations made by the Board of Supervisors from cannabis assignment. (Attachment B)

The Program will provide a status update on the November 18, 2021 meeting at the next regularly scheduled Cannabis Committee meeting.



Monterey County

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Board Report

Legistar File Number: 18-418

April 17, 2018

Introduced: 4/10/2018

Version: 1

Current Status: Agenda Ready

Matter Type: General Agenda Item

Receive report on results of the Board of Supervisors directed community engagement process for use of cannabis tax revenue over and above program operation costs;

Provide direction to staff.

CAO-IGLA

RECOMMENDATION:

It is recommended that the Board of Supervisors:

Receive report on results of the Board of Supervisors directed community engagement process for use of cannabis tax revenue over and above program operation costs;

Provide direction to staff.

SUMMARY/DISCUSSION:

As a result of a Board of Supervisors referral, staff was directed to implement a 3-faceted community engagement process with the intention of gaining public input on potential uses of cannabis tax revenue over and above program operating costs. In January 2018, the Board of Supervisors approved the staff proposal for community engagement and authorized the use of up to \$50,000 of cannabis tax revenue to implement the engagement process.

The community engagement process consisted of 3 components:

1. A random telephone survey of 625 registered voters in Monterey County of Monterey
2. An on-line survey
3. A series of 5 facilitated community forums, are held in each supervisorial district of the County.

The overall program design was intended to use and build upon information collected previously as part of the Impact Monterey County program developed by United Way Monterey County. The random telephone survey was conducted as the first stage of the engagement process and was completed in February 2018. High level results of the random telephone survey are shown in Attachments "A" and "B".

The community forums and on-line survey were developed and conducted in March 2018. To date the on-line survey has had 760 completed responses. High level results are also shown in Attachments "A" and "B".

Approximately 70 community members attended each of the 5 meetings held in the Supervisorial districts.

High level results of the community forums are provided in Attachment "C" and "D". More detailed

Legistar File Number: 18-418

information on any on the Community Forums will be presented to the Board of Supervisor by Michelle Slade (4 Consulting) who designed and facilitated the community forum process.

The commercial cannabis tax was approved by the voters in 2016 (Measure Y) a general tax. The ballot measure provided that revenue collected by the cannabis tax would be used for general governmental services. In addition, it was recognized that there would be general governmental costs related to the cannabis program which could be offset by a portion of this tax revenue.

The Board of Supervisors Cannabis Standing Committee is considering a recommendation to the full Board to lower the cannabis tax rate for a period of time to facilitate development of the local industry in what has become a very competitive market.

There will be significant and critical issues facing the Board in the review and adaptation of the FY 2018-19 budget. Staff was careful to point this out at each stage of the community engagement process. Staff believes that citizen input through the community engagement process will provide valuable information for Board consideration in the FY 2018-19 budget process as well as in future budget deliberations.

OTHER AGENCY INVOLVEMENT:

In designing and implementing the community engagement program, CAO-IGLA staff had extensive assistance from CAO-Community Engagement, Health Department, MILPA, Building Healthy Communities, and First Five Monterey County and United Way. In addition, Gene Bregman Associates was retained to conduct the random telephone survey. Michelle Slade, C4 Consulting, was retained to facilitate the community engagement public meetings.

FINANCING:

Acceptance of this report will not create any impact on the General Fund. The Board of Supervisors allocated \$50,000 of cannabis tax revenue to conduct the community engagement process.

BOARD OF SUPERVISORS STRATEGIC INITIATIVES:

Community Engagement process addresses all the strategic initiative areas.

X Economic Development
X Administration
X Health & Human Services
X Infrastructure
X Public Safety

Prepared by: Maegan Ruiz-Ignacio, Administrative Assistant Confidential, ext. 5508

Approved by: Nicholas E. Chiulos, Assistant County Administrative Officer, ext. 5145

Nicholas E. Chiulos, Assistant County Administrative Officer

Date

Legistar File Number: 18-418

Attachments:

Attachment A - Top 5 Issues From Phone and Online Survey

Attachment B - High Level Results Phone and Online Survey

Attachment C - High Level Results if the Community Forums

Attachment D - Community Forums Memo

Attachments are on file with the Clerk of the Board.

Attachment A

Top 5 Specific Issues Selected As Highest Priority

Rank	Online Survey	Telephone Survey
1	Early education and pre-school programs	Early education and pre-school programs
2	Providing quality healthcare, including mental health care, for County residents	Providing quality healthcare, including mental health care, for County residents
3	Programs to reduce and prevent crime and violence	Services for homeless families and adults
4	Other responses*	Programs to reduce and prevent crime and violence
5	Services for homeless families and adults	Programs that help people find affordable housing here and prevent displacement

Table shows a comparison between the Online Survey and the Telephone Survey for the top 5 responses provided when asked what specific issue stood out as the highest priority to receive cannabis tax revenue funding.

* A textual analysis was performed on answers provided when respondents selected "Other". The frequency of the words used was calculated and the most commonly occurring key words are as follows:

- 1) Libraries/Library
- 2) Roads
- 3) School
- 4) Education
- 5) Public
- 6) Funding
- 7) Fix
- 8) Enforcement

Attachment B

Telephone Survey Results Program or Issue to Fund with Cannabis Tax Revenue	Percent Ranking High/Med/Low				Highest Priority
	High	Medium	Low	Don't Know	
Early education and pre-school programs	57%	30%	13%	1%	26%
Programs to reduce and prevent crime and violence	69%	25%	6%	1%	18%
Services for homeless families and adults	56%	34%	9%	1%	19%
Improved public transportation, as well as increasing safe places for people to bike and walk	37%	41%	21%	1%	3%
Programs to provide training for County residents to help attract businesses to come here and provide residents with good jobs	43%	35%	20%	2%	5%
Violence prevention programs	64%	29%	6%	1%	13%
Providing quality healthcare, including mental health care, for County residents	70%	24%	5%	1%	22%
Programs to protect our environment	57%	26%	15%	2%	7%
Programs that help people when they get out of prison to stay out of prison	49%	36%	13%	1%	5%
Programs and services for non-citizens regardless of their immigration status	30%	37%	31%	3%	3%
Programs that help people find affordable housing here and prevent displacement	57%	30%	12%	1%	17%
Replenishing some of the County's reserve funds	30%	44%	21%	5%	1%
After-school youth programs	60%	29%	11%	1%	10%
Substance abuse education, prevention, and treatment programs	56%	34%	9%	1%	8%
Child abuse prevention programs	72%	23%	5%	1%	9%
Programs to reduce discrimination and inequality	45%	33%	21%	1%	3%
Programs to enhance people's participation in local government	23%	41%	34%	2%	2%
Don't Know/Not Applicable					7%

Online Survey Results Program or Issue to Fund with Cannabis Tax Revenue	Percent Ranking High/Med/Low				Highest Priority
	High	Medium	Low	Don't Know	
Early education and pre-school programs	46%	30%	20%	3%	17%
Programs to reduce and prevent crime and violence	42%	38%	18%	3%	11%
Services for homeless families and adults	40%	38%	19%	2%	8%
Improved public transportation, as well as increasing safe places for people to bike and walk	24%	37%	36%	4%	4%
Programs to provide training for County residents to help attract businesses to come here and provide residents with good jobs	19%	31%	43%	7%	4%
Violence prevention programs	34%	38%	25%	3%	2%
Providing quality healthcare, including mental health care, for County residents	53%	33%	12%	2%	14%
Programs to protect our environment	36%	33%	27%	4%	5%
Programs that help people when they get out of prison to stay out of prison	26%	40%	30%	4%	1%
Programs and services for non-citizens regardless of their immigration status	19%	30%	41%	10%	1%
Programs that help people find affordable housing here and prevent displacement	39%	33%	23%	4%	7%
Replenishing some of the County's reserve funds	14%	33%	43%	9%	3%
After-school youth programs	43%	33%	21%	4%	5%
Substance abuse education, prevention, and treatment programs	32%	37%	26%	4%	4%
Child abuse prevention programs	40%	38%	20%	3%	1%
Programs to reduce discrimination and inequality	23%	31%	39%	8%	1%
Programs to enhance people's participation in local government	14%	32%	45%	9%	0%
Other (Further analysis provided in supplemental sheet)					10%
Don't Know/Not Applicable					2%

*Other option not included in Telephone Survey

COUNTY OF MONTEREY

CANNABIS TAX REVENUE FORUM - COMMUNITY PRIORITY ADVOCACY

ECONOMIC SELF-SUFFICIENCY			22.11%
District 1 - Supervisor Alejo	48	249	19.28%
District 2 - Supervisor Phillips	34	170	20.00%
District 3 - Supervisor Salinas	23	233	9.87%
District 4 - Supervisor Parker	67	225	29.00%
District 5 - Supervisor Adams	71	219	32.42%

EDUCATION			28.99%
District 1 - Supervisor Alejo	82	249	32.93%
District 2 - Supervisor Phillips	48	170	28.24%
District 3 - Supervisor Salinas	65	233	27.90%
District 4 - Supervisor Parker	61	225	27.11%
District 5 - Supervisor Adams	63	219	28.77%

HEALTH			27.63%
District 1 - Supervisor Alejo	77	249	30.92%
District 2 - Supervisor Phillips	41	170	24.12%
District 3 - Supervisor Salinas	76	233	32.62%
District 4 - Supervisor Parker	55	225	24.44%
District 5 - Supervisor Adams	57	219	26.03%

SAFETY			14.70%
District 1 - Supervisor Alejo	28	249	11.24%
District 2 - Supervisor Phillips	31	170	18.24%
District 3 - Supervisor Salinas	49	233	21.03%
District 4 - Supervisor Parker	23	225	10.22%
District 5 - Supervisor Adams	28	219	12.79%

Overall County Services			6.41%
District 1 - Supervisor Alejo	14	249	5.62%
District 2 - Supervisor Phillips	16	170	9.41%
District 3 - Supervisor Salinas	20	233	8.58%
District 4 - Supervisor Parker	19	225	8.44%
District 5 - Supervisor Adams	0	219	0.00%

COMMUNITY PRIORITY ADVOCACY RANKING	
EDUCATION	29.00%
HEALTH	28.00%
ECONOMIC SELF-SUFFICIENCY	22.00%
SAFETY	15.00%
Overall County Services	6.00%



DATE: April 3, 2018

TO: Nick Chiulos, Assistant County Administrative Officer
County of Monterey

FROM: Michelle Slade, Chief Strategist
C⁴ Consulting

RE: **Highlights of Community Prioritization Advocacy -
Cannabis Tax Revenue Community Forums**

Following are highlights of initial insights and findings gleaned from the five Cannabis Tax Revenue Community Forums held in March 2018 to assist the Board of Supervisors in understanding what their constituents would like prioritized when determining the budget for excess cannabis tax revenue:

1. ***Three hundred fifty (350) constituents participated*** in total with ***an average of 70 participants*** per Forum.
2. ***100%*** of participants completing Forum Feedback cards answered ***YES*** to the question:

Would you like the Board of Supervisors to continue hosting forums like these to gain public input?
3. Attached in Appendix is a summary of ***key themes of Forum Feedback responses*** to these prompts:
 - a. ***What Worked:*** What did you like about the Forum? What was helpful?
 - b. ***Improvements:*** What would have made this Forum better?
 - c. ***Additional Comments:*** Any additional comments, questions, concerns, recommendations you would like your Supervisor and the rest of the Board of Supervisors to consider?
 - d. ***How did you learn about this Forum?***
4. Across the five Forums, the following ***ranking of Community Priorities*** emerged:
 - a. **Education - 29%**
 - b. **Health - 28%**
 - c. **Economic Self-Sufficiency - 22%**
 - d. **Safety - 15%**
 - e. **Overall County Services - 6%**

5. Within all of the Community Priority Areas (Economic Self-Sufficiency, Education, Health, Safety, and Overall County Services), providing services through an ***equity lens and ensuring culturally relevant and competency*** in program/service design and delivery was a notable theme.
6. Within the **Education Priority Area**, the following programs/services received the most advocacy for investment:

<i>Investing in Early Childhood Development & Pre-School Programs</i>	• <i>Early childhood education and preschool programs</i> • <i>In South County, universal, expand center, better pay for providers, provide technical assistance</i> • <i>Free universal preschool for all, particularly system impacted families and displaced parents</i> • <i>Increase infant/toddler services with slots in North County</i> • <i>More playgroups to empower parents to gain additional tools for positive parenting and understanding the importance of early childhood experiences</i> • <i>Provide more playgroups and parenting classes in Greenfield and King City to educate parents in early childhood development</i> • <i>Provide support for proposed early childhood education center near Oscar Loya School</i> • <i>Library materials for children of color</i> • <i>Fund direct services from Bright Beginnings</i>
<i>Expanding Youth Services - Out of School Time Programming: After School & Summer Programs</i>	• <i>Expand After-school Programs</i> • <i>Expand existing afterschool programs (e.g., Boys & Girls Club in Greenfield, YMCA)</i> • <i>Expand summer youth programs in North Monterey County during Summer in partnership with NMCUSD</i> • <i>Invest in Parks & Recreation: soccer fields, BMX tracks, nature trails</i> • <i>Provide more arts programming</i> • <i>Provide more sports programming, including funding for soccer complex</i> • <i>Social worker paid mental health staff onsite at schools and afterschool programs</i> • <i>More educational, academic enrichment, e.g., college prep, vocational training and career readiness, digital literacy, restorative justice</i> • <i>Refer youth to Rancho Cielo</i>
<i>Supporting</i>	• <i>How to be a parent</i>

Parent Education	● Parenting programs ● Programs for single mothers and their children (health, work trainings) ● Increase parent capacity to students as they navigate higher education ● Going to local schools and educate teachers, students, and parents (Cannabis Education) ● Programs to help parents understand how to be the best parents possible
Fostering Civic Education & Participation	● Programs to enhance people's participation in local government ● Mentoring program for youth with with local elected officials and law enforcement

7. Within the **Health Priority Area**, the Community advocated for the greatest investment in the following:

Ensuring Affordable, Quality Healthcare (with special emphasis on prevention, mental health, and wellness services)	● Providing quality healthcare, including mental health care, for County residents ● Funding for Esperanza care - Health Care for All ● Behavioral Health ● Further investment in mental behavioral health- trauma informed care ● Giving more support for preventative mental health treatment for children and more mental health treatment centers for youth and children ● Increased maternal mental health support ● Free healthcare for justice impacted youth, foster care, displaced and homeless, elderly ● In Home support services more funding for children, elders, people with disabilities ● Health services for veterans - Free medical cannabis as mental health treatment and veterans with PTSD ● Holistic programs for families, parental education and mental health ○ Wellness and nutrition ○ Yoga and meditation ● Opportunities for family screening and care coordination for multiple and varied need ● Lowering restrictions on who can receive mental health services for example someone with depression can be seen if they meet a criteria
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Expanding Public Health Education - Substance Abuse Prevention & Treatment	• Substance abuse education, prevention, and treatment programs • Rehabilitation centers for those with addiction to marijuana and cocaine • Treatment options for youth- residential, outpatient, relapse prevention • Culturally relevant rites of passage for youth and young adults that address drug and alcohol • Substance abuse treatment programs for youth in Greenfield and King City • Rehab mental health services for anyone who wants it; top priority drug arrests/ alternative to jail • Use arts (theatre) for substance abuse education • Targeted support for communities that have been impacted by illegal status of marijuana • Recommend 25% be set aside for the next 5 years for marijuana, opioid and other drug abuse prevention treatment and recovery services
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8. Within the **Economic Self-Sufficiency Priority Area**, the following emerged as the top 3 areas receiving the most advocacy for investment (noted by category and specific programs/services):

Ensuring Housing Affordability	• Programs that help people find affordable housing here and prevent displacement • Rent Control • Add more housing to be able to use the affordable housing programs • Section 8 housing availability • Inclusionary housing for low-income East Garrison Project • Emergency housing/shelter for low income and/or families who demonstrate need • Housing for aging out foster youth- safe spaces for learning and spending time • Domestic abuse and homeless shelters • Housing for the homeless • Small houses for affordable housing for homeless • Funding for the new Salinas/County homeless shelter • Building affordable housing; Support MBEP Policy
Providing Services for the Vulnerable	• Services for homeless families and adults • Programs and services for non-citizens regardless of their immigration status • Emergency Assistance programs: eviction, deportations, deaths

Increasing Economic Development - Workforce Development	● <i>Programs to provide training for County residents to help attract businesses to come here and provide residents with good jobs</i> ○ <i>Vocational training</i> ○ <i>Community laboratory and small business incubator</i> ○ <i>Diversify Monterey county economic portfolio for ex: build biotech industry</i> ○ <i>Home-grown companies: cannabis, agtech, biotech</i> ● <i>Equitable economic development opportunities in the Cannabis industry</i> ○ <i>Special permit of cannabis conviction for communities affected by past criminalization those not included because of startup costs</i> ○ <i>Prioritization for licences for sale for communities that have been impacted by the war on drugs</i> ● <i>Support re-entry employment & reparations</i> ○ <i>Support union jobs with good wages and benefits for system impacted and previously incarcerated regardless of immigration status</i> ○ <i>Expungements for those w/ marijuana charges</i> ○ <i>Reparations for marijuana drug offenses- clear records and reduce sentences</i>
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9. Within the **Safety Priority Area**, key programs/services the Community advocated for the greatest investment are:

Providing Re-Entry & Diversion Services	● <i>Programs that help people when they get out of prison to stay out of prison</i> ● <i>Re-entry programs: help people give back to their community with program and jobs</i> ● <i>Reparations - Amnesty program for cannabis conviction; Help for people with past drug convictions; Expunge records, help people get out of prison for past arrests for marijuana</i> ● <i>Training (including on the job training) & employment</i> ● <i>Youth arts programs as alternatives to punitive practices in the justice system</i> ● <i>Gang reduction activities-provide alternative pathways</i> ● <i>Rehabilitation programs for at-risk populations</i>
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Strengthening Crime, Violence Prevention & Reduction	• <i>Funded coordinated enforcement to protect legal growers from being undercut</i> • <i>Protect the public from illegal grows</i> • <i>Protect the county from loss of legal grows and lower Prop Y revenue</i> • <i>Establish program to respond to grows, include a way to report</i> • <i>Fund a dedicated Sheriff's Field Unit with drones and other surveillance equipment to locate, close down, and arrest illegal grows</i> • <i>Fund DA to prosecute.</i> • <i>More security and safety</i> • <i>Prevention & justice reform</i> • <i>More programs and vigilance in the community to prevent crime and violence.</i> • <i>More security by increasing police presence in the streets.</i>
Improving Transportation & Safer Built Environment	• <i>Improved public transportation, as well as increasing safe places for people to bike and walk</i> • <i>New bus routes and free passes for people below poverty line</i> • <i>Improve built environment</i> • <i>Improve lighting</i> • <i>More street lights (King City)</i> • <i>More lighting and install security cameras</i> • <i>Safe places for people to bike and walk</i>

10. Within the **Overall County Services Priority Area**, key programs/services the Community advocated for the greatest investment are:

Maintaining Existing Services	• <i>Avoid cuts in existing services</i> • <i>Support our County libraries; Library services- to reverse cutbacks and hours, staff and materials</i> • <i>Funding parks</i> • <i>Support existing animal shelters</i>
Ensuring County Solvency	• <i>Replenishing some of the county's reserve funds</i>
Investing in Public Infrastructure	• <i>Water for 300k new residents</i>

In addition to the insights and findings shared above, particularly noteworthy additional themes were expressed by participants regarding the engagement process (representative direct comments noted in *italics*):

1. **APPRECIATED THE OPPORTUNITY** - Participants deeply appreciated that the Board of Supervisors sought their perspectives and provided a robust opportunity to express and advocate for their points of view; again, **100%** of participants completing the Forum Feedback cards responded **YES**, that they would like the Board of Supervisors to continue hosting forums like these to gain public input:
 - *Thank you for providing me with this opportunity.*
 - *Very pleased that Supervisor Alejo was present to hear his constituents ideas and proposals for the investment of the tax revenues.*
 - *Keep us involved in the process.*
 - *Keep hosting forums!*
 - *Keep it going!*
 - *Thank you for bringing other organizations to support the Forums.*

2. **LIKED THE FORUM APPROACH** - Participants liked the approach to the Forums, especially the opportunity to have dialogue with other community members and supportive facilitation:
 - *We got to talk to people who will help us make our community a better place. What I liked was that we got to come up with good ideas for the community.*
 - *I like learning about the County's budget. I liked how we were put into groups and voted for what was important to us. Hearing other people's opinion was helpful to get their viewpoint.*
 - *Small groups worked. I liked the small group discussion and large sharing. It was helpful to have facilitator and participants it present.*
 - *Translation, facilitator involvement, coffee, group sizes and informative slides at beginning of the Forum.*

3. **HOPEFUL FOR ACTION, TRANSPARENCY** - Participants expressed hope their input would be acted upon and a desire to be kept informed, including access to information from the overall Community Engagement process (inclusive of the Forums, polling, on-line survey) and what action was taken upon this information:
 - *Please make it public that way our input is going to be used and now things will be priorities people want it to be feel that their input matters.*
 - *When will the county let us know what decisions were made? How will you use this feedback/ input? How will you decide where the money will go?*
 - *I just don't want this process to be for nothing and fall on deaf ears so please listen to the people.*
 - *Please be honest to people's wishes.*

I look forward to providing you and the Board of Supervisors with a full report. Thank you for the opportunity to partner with you, your fantastic team and the Board of Supervisors to engage our community to ensure: ***Together, a healthy, safe, thriving Monterey County!***

Attachment B Cannabis Assignment Expenditures by Fiscal Year

BOS Date	Purpose	Amount
9/12/2017	Salinas Homeless Shelter (DSS)	\$158,740
Total FY 17-18 Non-Recurring Expenditures		\$158,740
6/26/2018	Interlake Tunnel & Spillway Modification Project (WRA)	\$445,897
6/26/2018	Whole Person Care/Emergency Women's Shelter (DSS)	\$929,928
6/26/2018	Veterans Affairs Stand Down Event (DSS)	\$50,000
6/26/2018	Children's Emergency Response Team/Adult Protective Services (DSS)	\$1,591,246
6/26/2018	Books and Materials (Library)	\$300,000
3/26/2019	Safe Parking (DSS)	\$40,170
3/26/2019	CAO IGLA Cannabis - HdL & Associates	\$18,500
4/30/2019	CAO Contributions - Salinas Valley Promise	\$200,000
Total FY 18-19 Non-Recurring Expenditures		\$3,575,741
6/25/2019	Salinas Homeless Shelter (DSS)	\$92,825
6/25/2019	Safe Parking (DSS)	\$86,380
6/25/2019	Whole Person Care (DSS)	\$37,261
6/25/2019	First 5 Programs (Health)	\$340,000
6/25/2019	Book Collection (Library)	\$300,000
6/25/2019	Homelessness Consultant (CAO)	\$45,000
6/25/2019	Chinatown Outreach (CAO)	\$5,000
6/25/2019	Prunedale Senior Center (CAO)	\$20,000
6/25/2019	Salinas Soccer Park Complex	\$250,000
6/25/2019	Rural County Representatives of California Membership	\$15,000
9/10/2019	Census (CAO-8440)	\$300,000
10/8/2019	DUI Court (Probation)	\$109,000
10/8/2019	DUI Court (Health)	\$51,000
11/19/2019	Lakes Fund Deficit (RMA)	\$2,131,440
1/14/2020	Citygate Consultant (RMA)	\$199,696
3/24/2020	Emergency funding for The Food Bank of Monterey County	\$250,000
4/21/2020	Emergency funding for The Food Bank of Monterey County	\$250,000
4/28/2020	Fondo Empresarial Emergency Loan Program	\$25,000
5/12/2020	Emergency Operations Center response to COVID-19 (OES)	\$3,000,000
5/12/2020	COVID-19 Project RoomKey Program (OES)	\$529,538
6/9/2020	California Cannabis Authority Administrative Fees (CAO)	\$50,000
6/30/2020	Boronda County Sanitation District Unplanned Operational Needs (Loan)	\$46,750
Total FY 19-20 Non-Recurring Expenditures		\$8,133,890

Attachment B Cannabis Assignment Expenditures by Fiscal Year

BOS Date	Purpose	Amount
6/23/2020	Salinas Valley Promise	\$200,000
6/23/2020	California Cannabis Authority (CAO)	\$50,000
6/23/2020	HED Housing Fund	\$200,000
6/23/2020	Sheriff Radios	\$1,250,000
6/23/2020	Salinas Valley Ground Water Basin (RMA)	\$75,998
6/23/2020	Pajaro Sanitation District Loan (WRA)	\$207,500
6/23/2020	Health Bright Beginnings Programs	\$350,000
6/23/2020	Whole Person Care, Coalition on Homelessness, Safe Parking, Seaside Shelter, Gathering for Women (DSS)	\$626,859
6/23/2020	Library Bus	\$125,000
7/7/2020	Pajaro River Flood Risk Management Project (WRA)*	\$1,000,000
8/18/2020	Census Deadline Extension (CAO)	\$300,000
9/1/2020	Emergency Operations Center response to COVID-19 (OES)†	\$6,884,635
9/1/2020	Emergency funding for The Food Bank of Monterey County	\$250,000
10/27/2020	Well destruction under Prop 1 grant (MCWRA)	\$399,499
12/1/2020	Monterey County Small Business Relief Program, Round 2 (WDB)§	\$878,643
12/1/2020	Housing Development, Homelessness Consulting, Fondo Empresarial Emergency Loan Program (HED)	\$35,598
12/1/2020	TMD Creative COVID 19 Public Health Messaging Contract (OES)†	\$335,000
12/8/2020	Fee Study for the Cannabis Business Permit (CAO)	\$33,927
12/21/2020	Temporary workers (34 workers for 4 weeks) to support Care and Shelter Branch (OES)	\$171,000
12/21/2020	Community Outreach and Education Pilot Project	\$2,989,651
1/5/2021	California Cannabis Authority Administrative Fees (CAO)	\$120,000
1/26/2021	COVID-19 Project RoomKey Program (OES)	\$103,990
2/9/2021	Senior Meal Program (DSS)	\$707,920
2/9/2021	Redirected Staff and Temp Workers (DSS)	\$1,555,079
2/9/2021	Portion of Alternative Housing (OES)	\$403,979
2/9/2021	PPE & Supplies for EOC Use (OES)	\$75,000
2/9/2021	United Way Call Center (OES)	\$120,000
2/9/2021	RMA Revenue Loss (HCD)	\$1,814,761
2/9/2021	Emergency Paid Leave- Patrol (Sheriff Office)	\$74,767
2/9/2021	PPE and Cleaning & Sanitizing Supplies (Sheriff Office)	\$62,106
2/9/2021	VM Software for SRO (Sheriff Office)	\$39,876
2/9/2021	Coroner's Body Storage Lease, Transportation fee & Body Bags (Sheriff Office)	\$49,844
2/9/2021	Coroner's Autopsy Costs, including COVID19 Testing (Sheriff Office)	\$174,456
2/9/2021	Coroner's Body lift & Portable Diesel Tank for Morgue (Sheriff Office)	\$7,477
2/9/2021	Workplace Preparedness- Investigation (Sheriff Office)	\$22,430
2/9/2021	Workplace Preparedness- Crime Lab (Sheriff Office)	\$32,399
2/9/2021	Workplace Preparedness- Records Warrants/IT (Sheriff Office)	\$37,383
2/9/2021	Emergency Paid Leave-Jail (Sheriff Office)	\$45,358
2/9/2021	Redirected Staff-Overtime (Sheriff Office)	\$321,497
2/9/2021	2021 PCR Testing Costs (Sheriff Office)	\$85,433
2/9/2021	Security Guards/Temp Check (Sheriff Office)	\$65,795
2/9/2021	Security & Transportation to Hospitals (Sheriff Office)	\$73,271
2/9/2021	Monterey County Small Business Relief Program, Round 3 (WDB)§	\$900,000
2/9/2021	Public Communication & Outreach (Health)	\$126,758
2/9/2021	Workplace Preparedness (Health)	\$19,349
2/9/2021	Broadband/Telecommunications (Health)	\$18,000
2/9/2021	Medical Supplies and Equipment (Health)	\$13,800
Total FY 20-21 Non-Recurring Expenditures		\$23,434,038
2/9/2021	Prop 1 Implementation Grant Project Protection of Domestic Water (WRA)	\$2,263,801
	2nd half of cost in FY 2021-22 Sheriff Radios (Sheriff Office)	\$1,250,000
10/19/2021	Laguna Seca	\$750,000
Total FY 21-22 Non-Recurring Expenditures		\$4,263,801
Total Non-Recurring Expenditures, All Fiscal Years		\$39,566,210

* To be repaid when State Subvention Funds are received, which is estimated between 6 - 12 months from the time costs are incurred

† These expenditures of may be eligible for reimbursement by CARES Act, FEMA, and the State assuming they meet the eligibility criteria established

§ WDB Office will look into whether or not this could be eligible for reimbursement

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Monterey County

Item No.

Board Report

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

Legistar File Number: 21-1053

November 29, 2021

Introduced: 11/24/2021

Current Status: Agenda Ready

Version: 1

Matter Type: General Agenda Item

- a. Receive a status update on the industry input received during the County-Industry Subcommittee meetings on commercial cannabis tax structure and rates; and
- b. Receive a status update from the California Cannabis Authority regarding wholesale price point trends specific to Monterey County and Statewide and a high-level overview of square foot versus gross receipts tax rate structures; and
- c. Review options for addressing tax rates prepared by the Cannabis Program for the Committee to consider; and
- d. Direct the Cannabis Program to present specific options to the Board of Supervisors; and
- e. Provide direction to staff as appropriate.

RECOMMENDATIONS:

It is recommended that the Board of Supervisors Cannabis Committee:

- a. Receive a status update on the industry input received during the County-Industry Subcommittee meetings on commercial cannabis tax structure and rates; and
- b. Receive a status update from the California Cannabis Authority regarding wholesale price point trends specific to Monterey County and Statewide and a high-level overview of square foot versus gross receipts tax rate structures; and
- c. Review options for addressing tax rates prepared by the Cannabis Program for the Committee to consider; and
- d. Direct the Cannabis Program to present specific options to the Board of Supervisors; and
- e. Provide direction to staff as appropriate.

SUMMARY

On November 17, 2021, the Cannabis Program ("Program") presented a memorandum on the "County-Industry Subcommittee on Commercial Cannabis Tax Structure and Rates" ("Subcommittee") providing a review of the discussion and input received during the first meeting. The Subcommittee consists of six County staff, six industry business owners/operators, and six local attorneys/industry consultants.

The Program memorandum summarized the input received as follows: a significant decline in the wholesale price point since April 2021 and an industry request for immediate relief. The Committee directed staff to schedule a Cannabis Committee ("Committee") Special meeting to receive further information.

DISCUSSION:

At the October 28, 2021, Subcommittee meeting, the Program received the following input:

1. Wholesale Price Points.

- a. Local wholesale price points have seen a drastic decline over the prior three months, exacerbated by ongoing supply and demand issues statewide.
- b. Despite favorable cannabis growing conditions in Monterey County, there are significant challenges to remaining competitive in the market.

2. Immediate Relief.

- a. The industry proposes some form of immediate relief from the commercial cannabis tax, either in a rate reduction or a stay on penalties if the account is delinquent, and the removal of the annual automatic escalator.

The industry representatives agreed to meet independently from the County to review and prepare for the next Subcommittee meeting; it is unclear how many other industry business owners/operators were contacted or surveyed. The Monterey County Cannabis Industry Association (“MCCIA”) has been doing its due diligence in researching and analyzing current commercial cannabis tax structure and rates. The MCCIA also met with Santa Cruz County, but it is unclear if other counties were interviewed as well. Through this outreach, the MCCIA found that operators are conducting internal analyses to review their overhead costs and costs of goods sold and are beginning to lay off employees in response to the downturn.

On November 18, 2021, the Program and Subcommittee met to further discuss the commercial cannabis tax rate and structure. Industry members stated they met several times to formulate one “voice” and “ask.” Some industry members offered to share their financial information if needed to support the request for immediate relief. Listed below are the highlights of this meeting.

1. Immediate reduction in commercial cannabis cultivation tax rates.

- a. The industry proposes an indefinite reduction to commercial cannabis cultivation tax rates that matches the “3/2/1 taxing model” implemented by the counties of Humboldt and Lake. This implies \$3/square foot (“sf”) for indoor cultivation, \$2/sf for mixed-light cultivation, and \$1/sf for outdoor cultivation. This proposed change would result in a 60 percent reduction from current cultivation tax rates of \$8/sf for indoor, \$5/sf for mixed-light and \$2.50/sf for outdoor. As of this writing, there are no licensed outdoor grow cultivators in Monterey County.

2. Place a stay or remove the commercial cannabis automatic annual tax escalator.

- a. The industry requests suspension or removal of the automatic annual tax escalator. Two suspensions of the escalator have occurred in subsequent fiscal years. The FY 20-21 suspension was in response to the COVID-19 pandemic. The FY 21-22 suspension was also in response to the COVID-19 pandemic, in addition to a local outbreak of the Hop Latent Viroid in April 2021.
 - i. The operative word with this viroid is “latent”, meaning that it was largely asymptomatic and not evident until later stages of cultivation where the harvest yields and potency of Tetrahydrocannabinol, the psychoactive component generated by cannabis plants, were both greatly impacted. Operators reported lower prices through the affected period, but there isn’t a clear indication of

this within the wholesale pricing information. (Attachment A)

3. Consider placing a stay on the penalties and interest for tax payments deemed delinquent.

- a. Monterey County Code (“MCC”) section 7.100.080 specifies when tax payments are delinquent. MCC section 7.100.100 specifies the penalties and interest due for such delinquency. The industry requests a stay on these penalties and interest for the current fiscal year, which ends on June 30, 2022.

4. Miscellaneous comments and suggestions to assist the industry during this period of declining wholesale price points for commercial cannabis.

- a. Overhead costs are increasing industrywide.
- b. Cost of Goods Sold, the direct costs of producing commercial cannabis products, including materials and labor, is increasing, partially owing to shortages in the supply chain.
- c. Decline in the cannabis industry workforce due to layoffs.
- d. Finished goods are being sold at a much lower price point.
- e. Industry businesses are carrying accounts receivables for longer periods of time and are challenged to collect, further impacting cash flow.
- f. The Committee should consider reviewing the Program and reducing staffing levels as the business entities become fully permitted and require less County monitoring.

During the Subcommittee meetings, the industry indicated their appreciation of both the Committee and the Board in receiving their input regarding the need for immediate relief.

Since the Committee last met, the Program conducted interviews with the California Cannabis Authority (“CCA”) and the County Administrative Office (“CAO”) Budget Director. The Program will continue its due diligence in contacting other County departments and investigating other resources as needed once the Committee provides the Program with its direction. Here is the analysis to date:

1. Decline in commercial cannabis wholesale price point and the inability to identify when a correction may take place.

- a. There has been a significant decline in the wholesale price point since April 2021, which is determined after the cannabis plant is processed. Like traditional agriculture, Monterey County cannabis price points tend to be higher than other counties because the cannabis is cultivated in a desirable geographic growing region. Another indication of a higher price point could be the inconsistency of the permittee to update consignment pricing in Metrc; the Program is working with CCA and industry operators to establish best practices for reporting consignment prices.
- b. Relative to October 2020, average wholesale prices are down \$680 per pound; this represents a 53% decline. (See Attachment A) It would be difficult to forecast if or when a correction could occur, but analysts, including CCA, project a change or correction in spring 2022. The industry speculates that the change or correction may not occur for some time.

2. Increase in inventory levels among permittees in Monterey.

- a. Compared to 2020, permittee inventory levels have increased due to the decline in

wholesale price points and the “waiting game” of determining the optimal time to sell. The higher level of inventory is indicative of reduced gross sales, which impacts cash flow and could lead to delays of infrastructure improvements and employee layoffs. In July 2021, the Program required industry operators to submit employee rosters. At that time, the industry employee workforce equaled approximately 2,400. The Program will request current employee information to update the workforce count.

3. Preliminary discussion with the CAO Budget Director on financial impacts for the current fiscal year.

- a. On November 18, 2021, the Program met with the CAO Budget Director to review financial impacts to the current fiscal year budget if the Board approved a policy decision to amend the current commercial cannabis tax rate. If rates were decreased, there would be a financial impact to the current budget, reducing department services; impacts would be dependent on the scale of tax reductions. The Program can provide commercial cannabis tax revenue estimates, but these figures can and will likely change due to a convergence of a decline in wholesale price points and other financial obligations required to meet local jurisdiction requirements.
- b. The CAO Budget Office requested proposed costs for Fiscal Year (“FY”) 22-23 from the Program on November 15, 2021. The current FY 21-22 Program costs are \$6,334,421.18. The proposed FY 22-23 Program costs are estimated at \$6,346,485.85, but this does not include all salary increases, as some bargaining units are still in negotiations.

4. CCA Insights.

- a. The CCA has developed “The NCS Transparency Project,” which automatically updates each month on the Program’s webpage. The Project is a publicly available data portal filled with industry insights and useful information geared towards the average citizen. The Project’s goal is to share information in an easy-to-understand, visually appealing, and timely manner. The data is aggregated, anonymized, and securely displayed. Recent industry comments found value in the report, characterizing it as “very helpful.” The Program uses the NCS Platform’s data points for a multitude of regulatory and compliance needs including tracking the wholesale and retail price points.
- b. Indoor prices are typically higher, and they are impacted less because the product is viewed as higher quality and therefore commands a higher price point than outdoor or mixed-light cultivation.
- c. A canopy-based tax structure is much easier to implement and regulate, but it impacts growers differently. Smaller growers typically amortize their tax liability across fewer harvests; relative to a large grower with greater economies of scale, amortization is more burdensome to a small grower. When the costs of goods sold shift, this method becomes disproportionate. A gross receipts tax is difficult to regulate, but when reliably reported, tax revenues and industry revenues are correlated.
- d. Companies that provide services which report on state wholesale price point trends tend to have a smaller pool of licensees to study. As CCA data is limited to Monterey County, the relevance is critical to this Committee and the Board in their ability to

make decisions.

5. Cannabis Program Forum (“Forum”).

- a. On November 19, 2021, Monterey County hosted the Forum, which consists of thirteen counties as far north as Nevada County and south to Santa Barbara County. The Forum meets quarterly to discuss a variety of topics and to share information. At the recent Forum, the Program asked about cannabis tax rates and collection and received the following input:
 - i. A recent Department of Cannabis Control (“DCC”) weekly listserve identifies 7,085 active cultivation licenses in the state. Attachment B breaks down both state licenses and how commercial cannabis is taxed; the table within the attachment has been filtered to the top 12 counties in terms of cultivation licenses, with total license counts reflected in the grand total.
 - ii. Richard Parrott, DCC Deputy Director of Compliance, was the guest speaker at the Forum. Mr. Parrott discussed topics related to DCC consolidation efforts, including refinements to compliance and enforcement mechanisms, better collaboration with local jurisdictions, and the development of compliance training and education programs. Mr. Parrott emphasized that DCC’s goal is to build and sustain a strong compliance and enforcement structure.
 - iii. Nevada County is considering moving from its current 2.5 percent of gross receipts model to a canopy tax following the 3/2/1 model. Its operators are considering transitioning to mixed light because there is no demand for outdoor flower.
 - iv. Santa Cruz County reported a 70 percent decline in their tax revenue relative to the prior fiscal year, but the county has not seen an increase in tax delinquency. This is due in part to their gross receipts-based tax model, which correlates with the widespread declines in wholesale pricing; as sales decline, so do tax liabilities. Operators are reportedly fallowing their fields because they are not profitable to harvest. Abnormally foggy weather led to moldy crops, further contributing to price declines. Santa Cruz County’s BoS has not requested a reduction to the 6% gross receipts commercial cannabis tax rate as of this writing and may be considering an ordinance to permit consumption lounges. The County Licensing Office has audited retail dispensaries for years and will begin audits of non-retails soon.
 - v. San Luis Obispo County recently put a stay on an automatic increase that would have raised its gross receipt tax from 6 to 8 percent. This was in part because of reports of several operators fallowing their fields. Licensed operators cite their heavy tax burden and more stable prices as incentives to divert into the unlicensed market.
 - vi. Santa Barbara reported current year tax collections are 40 percent below projections.
 - vii. Sonoma County operators were affected by mold saw crop destruction; they are working on a request to their board to freeze tax rates.
 - viii. A few jurisdictions expressed interest in drafting a letter to address tax

reform at the state level.

Additional relevant considerations include:

- a. An emergency ordinance, as referenced in Elections Code section 9141(a)(4), can take effect immediately, provided a 4/5th vote of the BoS find that the Ordinance is necessary for the immediate preservation of the public peace, health, or safety, and that the BoS cites facts constituting that necessity in the Ordinance.
- b. In October 2021, the BoS approved an amendment to MCC Chapter 7.90 to allow a second modification to canopy size during the Cannabis Business Permit annual term on the Fiscal Year Registration Form. This amendment allows permittees to reduce or increase canopy limits two times each annual term; the change is effective November 25, 2021.
 - i. Treasurer Tax-Collector (“TTC”) staff estimate that pending modifications to zero square feet will result in approximately \$886,000 decline to current FY cultivation tax revenue.
 - ii. In addition, TTC staff reports that approved modifications will result in an additional \$447,200 decline to current FY cultivation tax revenue.
- c. In January 2022, the Program will present a report on the commercial cannabis distribution tax to the BoS and recommend a reduced tax rate. Currently, the rate is 3%. For FY 20-21, distribution tax revenue was \$1,332,386.
 - i. Assuming FY 20-21 gross receipts, distribution tax revenue would decline by approximately \$450k if the rate was reduced to 1%, as discussed by the Budget Committee.
- d. The growing climate in Monterey County has provided ideal conditions for both traditional agriculture and commercial cannabis to produce high quality products. The Cannabis Program has a multi-faceted permit process that requires a land use permit, cannabis business permit, and annual business license; obtaining all three represent significant investments. In spite of the time it has taken to achieve full permit compliance, the industry has provided the County with a new revenue stream in recent years. To date, the collected commercial cannabis revenue is \$73,656,737.

Options to Consider

1. Industry’s request for immediate relief to reduce commercial cannabis cultivation rates in one of three ways.

- a. The industry continues to recommend the 3/2/1 taxing model because other counties follow this model and “compared to other large counties, Monterey County taxes are high”. A reduction in tax rates could be indefinite, or for a limited period. Furthermore, a retroactive reduction in tax rates would require the issuance of tax refunds or credits.
 - i. The commercial cannabis business tax is an annual tax. MCC section 7.100.060 provides that the commercial cannabis business tax be imposed on a fiscal year basis. Taxes imposed on a fiscal year allow the county to project revenue and plan for expenditures. In accordance with the fiscal nature of the commercial cannabis business tax, TTC staff recommend that any changes to the tax rate coincide with the start of fiscal year (effective July 1, 2022).

- b. Suspend the Fiscal Year 22-23 automatic increases on the County's commercial cannabis business tax rates and resume the automatic increases in FY 24-25 on July 1, 2024.
- c. Suspend the commercial cannabis tax penalty for delinquent accounts until June 30, 2022 provided the base tax due is received by the TTC by June 30, 2022.
 - i. The existing criteria for canopy modification requests require an operator to be current on their taxes, therefore operators affected by tax delinquency would not be eligible to reduce their tax liability through a reduction to canopy; this could result in a compounding effect as the fiscal year progresses. The Board could consider a one-time exemption this FY for delinquent operators to submit canopy modification requests in response to the market correction.
 - ii. The Board could consider a waiver of penalties and interest that would apply retroactively to assist operators who experienced delinquency in Q1.

2. **Review of commercial cannabis tax analysis.**

- a. Request Board approval for the Program to hire a consultant to provide unbiased subject matter expertise to conduct a comprehensive analysis of the County cannabis industry, including a review of comparable commercial cannabis tax rates throughout California and an evaluation of current industry operators.

The Program requests that the Committee review these options and provide direction to the Program for next steps. In its consideration, the Committee should be aware that time is of the essence because:

- 1. The Program will need time to further confer with several County departments, Subcommittee members, CCA, and other related resources.
- 2. The CAO Budget Director will need to review and analyze financial impacts to a proposed reduced tax rate for current and subsequent fiscal years, if applicable.
- 3. The Program will need to coordinate workloads when considering:
 - a. The upcoming winter holiday schedule.
 - b. State of CA GO-Biz equity grant application due date of December 13, 2021.
 - c. Overall impacts to departmental cannabis staff workloads.

OTHER AGENCY INVOLVEMENT:

The Office of the County Counsel, County Administrative Office Budget Office, and California Cannabis Authority were involved in the preparation of the report.

FINANCING:

Monterey County's Cannabis Program is funded in County Administrative Office - Department 1050, Intergovernmental and Legislative Affairs Division - Unit 8533, Cannabis. Based on the direction of this Committee, there could be significant impacts to the overall County budget if one or more commercial cannabis tax rates are reduced.

BOARD OF SUPERVISORS STRATEGIC INITIATIVES:

The Monterey County Cannabis Program addresses each of the Strategic Initiative Policy Areas that

Legistar File Number: 21-1053

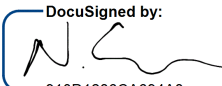
promote the growth of a responsible and legal Monterey County cannabis industry.

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, Cannabis Program Manager

Approved by: Nicholas E. Chiulos, Assistant CAO

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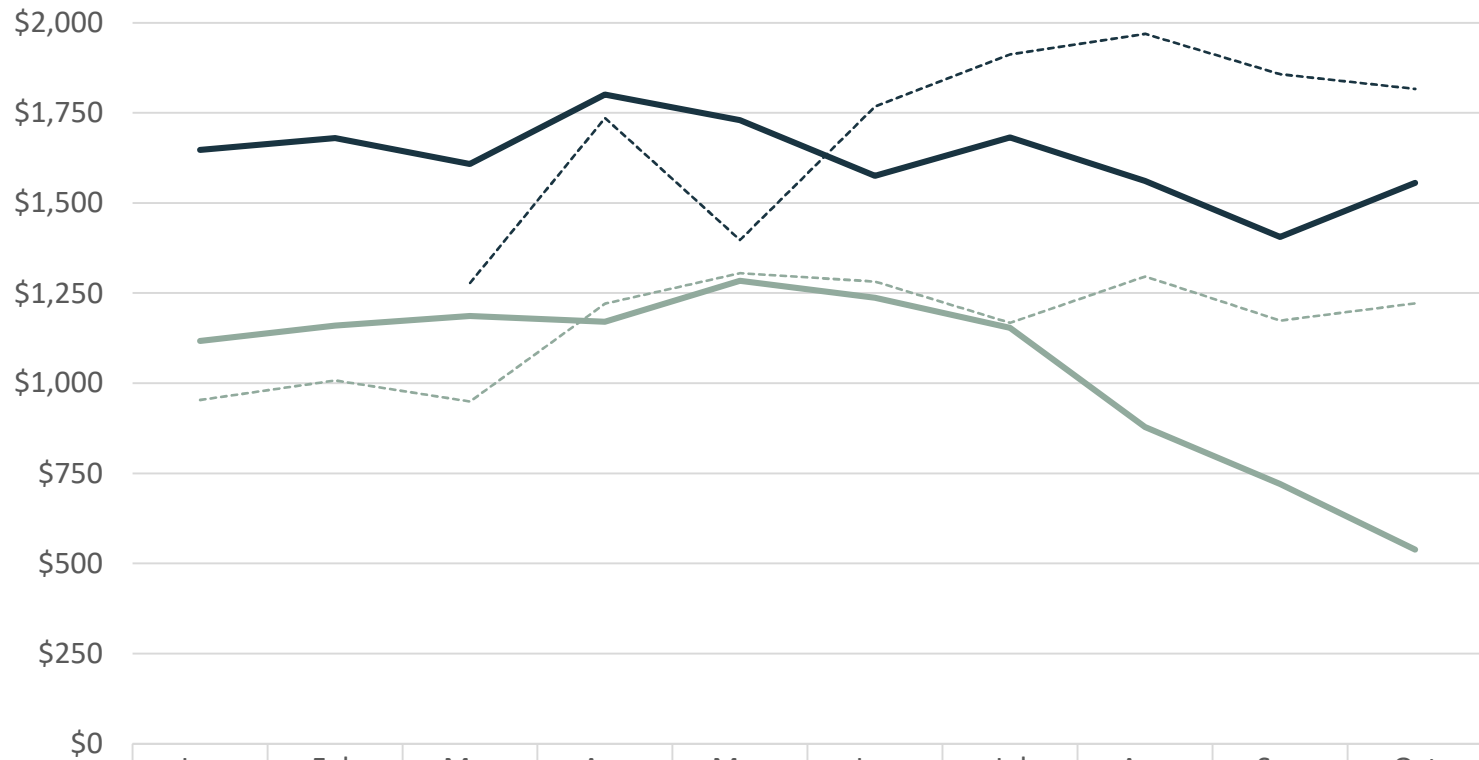
Attachments:

A: Commercial Cannabis Wholesale Price Values for 2021 and 2022

B: Department of Cannabis Control Commercial Cannabis Cultivation Licenses

Attachment A
Commercial Cannabis Wholesale Price Values for 2021 and 2022

Monthly Wholesale Flower Pricing by Cultivation Type (\$/lb.)



*Due to differences in volume between Indoor and Mixed Light, Mixed Light pricing represents a blended average.

Attachment B
DCC Cultivation License Breakdown by County

County	Indoor	Processor	Nursery	Mixed Light	Outdoor	Total	% of Total	Tax Structure
Santa Barbara	3	29	36	438	1218	1724	24%	GR
Humboldt	9	18	38	1037	591	1693	24%	SF
Lake		2	3	24	952	981	14%	SF
Mendocino	11	10	78	424	316	839	12%	GR
Monterey	21	41	47	401		510	7%	SF
Trinity	6		3	264	148	421	6%	WB
Santa Cruz	3	12	16	94	69	194	3%	GR
Nevada	2	3	6	70	84	165	2%	GR
Sonoma	13	3	4	7	124	151	2%	SF
Calaveras	4			31	91	126	2%	SF
Yolo	1			36	61	98	1%	GR
San Luis Obispo		1	3	19	55	78	1%	GR
Total*	90	121	246	2865	3763	7085	99%	

*This table has been filtered to the top 12 counties in terms of cultivation licenses; total license counts are reflected in grand total.

GR=Gross Receipts

SF=Square Footage

WB=Weight Based

