



CANNABIS PROGRAM
MONTEREY COUNTY

Board of Supervisors
May 17, 2022

Commercial Cannabis Tax

Background on local tax relief.

- Cannabis Committee: 7/21/2021: Distribution tax
- Budget Committee: 8/25/2021: Distribution tax
- Cannabis Committee: 11/17/2021: County Industry Tax Subcommittee
- Cannabis Committee: 11/29/2021: Options for commercial cannabis tax rates based on input from Tax Subcommittee
- Board of Supervisor: 12/14/2021: Options for 7.100 amendments for draft ordinance in January
- Board of Supervisor: 2/1/2022: 7.100 Amendments, 1st reading
- Cannabis Committee: 4/7/2021: County Industry Tax Subcommittee requesting additional immediate relief
- Cannabis Committee: 5/5/2021: Small industry focus group outcomes, which included taxation as a topic
- Board of Supervisor: 5/17/2021: Options for cannabis business tax structure and rates

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Ongoing struggles of the cannabis industry.

- Pricing has slightly trended upwards but remains depressed as evidenced by CCA data.
 - Industry required to submit data monthly, but an average of 18 operators do not.
 - Price point decline began in July 2021, dropping as much as 68% Mixed-Light and 50% Indoor.
 - Operators continue to report difficulty in selling their inventory.
- Articles continue to confirm what is being reported locally.
 - Legislative analysis suggests cultivation exceeds retail sales by threefold.
- Several compounding factors.
 - State cultivation and excise taxes, in addition to licensing fees.
 - Governor’s Office “May Revision” could set state cultivation rate to zero beginning July 1, 2022.
 - Rising cost of materials due to shortages and delays.
 - Cultivators offering volume incentives to secure sales.
 - Retailers required to pay State excise when goods are received, not at point of sale.
 - May Revision would shift collection and remittance of excise tax to retail.

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Local outcomes of wholesale price point decline.

- 24 businesses have shut down since 2019, and staff told to anticipate more.
- 14% delinquency rate from Q1 of FY 21-22 has risen to 54%.
 - Operators have taken advantage of Board stay on penalties and fines for Q3.
 - Not considered delinquent by Program unless they remain so after relief period.
- MCC 7.100.160 empowers TTC to take enforcement actions to resolve delinquency.
 - Recording certificate of lien, issuing warrant for lien enforcement, and seizing assets.
 - Liens have been filed for uncollected cannabis tax in the amount of \$2,632,314.60.
 - \$2,085,272.95 uncollected and continues to accrue additional penalties.

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Tax relief measures of other local jurisdictions.

- Humboldt County deferred second tax installment reduced cultivation rates by 85%:
 - Indoor \$0.45/sq. ft.
 - Mixed Light \$0.30/sq. ft.
 - Outdoor \$0.15/sq. ft.
- Santa Barbara County may move to a canopy-based tax to reduce budget volatility.
 - 30% shortfall of estimated revenues driven by wholesale price point decline.
 - Need to balance certainty of revenue for County against fairness for operators.
- Lake County deferred second installment and reduced cultivation rates by 50%:
 - Indoor \$1.50/sq. ft.
 - Mixed Light \$1.00/sq. ft.
 - Outdoor \$0.50/sq. ft.

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<p>#1</p> <p>Extend FY 22 payments through December 2022</p>	<p>#2</p> <p>Reduce Mixed-Light and Indoor Rates to \$2 and \$3</p>	<p>#3</p> <p>Reduce cultivation rates to maintain recovery of Program costs</p>	<p>#4</p> <p>Reduce all rates to zero until wholesale price reaches agreed amount</p>	<p>#5</p> <p>Forgive Q3 and Q4 of FY 22</p>	<p>#6</p> <p>Retain existing version of MCC 7.100</p>
<p>No impacts to FY 22 tax revenue</p> <p>No penalties/interest if paid in full by December 31</p>	<p>Reduces FY 23 tax revenue by \$3.3m</p> <p>May be applied retroactively.</p>	<p>Reduces FY 23 tax revenue by \$4.4m</p>	<p>Could reduce FY 23 tax revenue by up to \$11.9m</p>	<p>Reduces FY 22 tax revenue by \$6.2m</p>	<p>No impacts to FY 22 or FY 23 tax revenue</p>



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Questions