



CANNABIS FEE STUDY

MONTEREY COUNTY, CALIFORNIA

Draft Report

March 2, 2021



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CHAPTER 1. BACKGROUND

Monterey County (County) retained MGT Consulting LLC to determine the cost of issuing licenses for commercial cannabis permittees including cultivators, distributors, processors, manufacturers and retailers. The permits are called Cannabis Business Permits (CNB). MGT has assisted the County on many cost of service analyses. We have also assisted many cities, counties and states on determining the costs of cannabis licensing and enforcement, as well as numerous other types of user fees.

This project focused on Cannabis Business Permits. The County currently has two fees for the CNBs:

Fee	Fee Amount
Initial Permit	\$4,653
Renewal Permit	\$1,069

CHAPTER 2. Approach to the Project

The County indicated that four departments are involved in issuing CNBs:

- County Administrative Office (“CAO”) Cannabis Program
- Office of the County Counsel
- Health Department, Environmental Health Bureau
- Housing and Community Development Department (“HCD”) formerly Resource Management Agency

During this project, MGT determined the cost in each of the four departments. We used the following tasks for this assignment:

- Review Historical Fee Structure & Fee Collection Data

The County has two permit deposits: Initial and Renewal. The Initial permit is good for one year. All permits are renewed each year on the anniversary date of the issuance.

Given the current rates and renewal activity, estimated fee collections would be approximately:

Fee	Fee Amount	Annual Activity	Potential Revenue
Initial Permit	\$4,653	1	\$ 4,653
Renewal Permit	\$1,069	120	\$ 128,280
Total		121	\$ 132,933

The Cannabis Program Manager indicated they have issued 14 CNBs and 99 are in the queue as an Initial Permit. Annual renewal volume would range from 120 to 150 as the Program anticipates new operators onboarding.

For both types of permits, we asked the four departments about the time needed to issue one of each permit. Regardless of how many initial or renewal permits the County might issue, we wanted to understand what it would cost on a unit basis. Therefore, the number of renewals, whether 120 or 150, impacts total revenue, not necessarily the cost per individual permit.

- Conduct Trend Analysis of License Types, Counts and Fees

According to the Cannabis Program, there should not be any material changes in the number of license applications.

- Estimate Future License Counts by Type

According to the Cannabis Program, there should not be any material changes in the number of license applications.

- Conduct Cost Analysis

MGT reviewed the costs in the four departments. We followed the following steps:

- Identified the costs in the 2020/21 budgets
- Identified the staff in each department who are involved in the permit issuance process.
- Interviewed the staff to determine the time commitments for issuance initial or renewal permits
- Discussed other budgetary units in the department and how to allocate non-personnel costs
- Reviewed the County’s Central Services Cost Allocation Plan (CAP) to determine how to incorporate allocations for central service and direct service departments ¹
- Prepared a cost-of-service model for each department
- Reviewed the model with each department.
- Summarized findings

We reviewed the following types of costs in each department:

- **Direct Labor**
We interviewed supervisors to identify the personnel involved in the CNB process and the estimated time needed to process applications. We applied labor rates by individual. These rates incorporated salaries and benefits.

For the Environmental Health Bureau , staff indicated that the budget provides for a total of 72 positions. However, 11 of the positions are not filled. The vacant positions do not impact CNB processing.

Personnel costs (labor and benefits) are usually the largest cost component for any service department. The time estimates in minutes and hours for the four departments for each CNBP application are:

	Total Minutes Per Transaction					Total Hours
	CAO	County Counsel	HCD	HD-EHB	Total Minutes	
Initial Permit	760	60	95	951	1,866	31.10
Renewal Permit	760	60	95	473	1,388	23.13

¹ MGT prepared the most recent CAP for Monterey County

- **Allocated Non-Salary expenses**
This included non-labor costs in each department. These costs were allocated to direct services on the basis of direct labor by service. If CNB activities were 5% of total salaries and benefits, then 5% of non-salary expenses were allocated to CNB activities.
- **Indirect Expense Allocation**
Each year, the County prepares a central services cost allocation plan (CAP). Central administrative costs (e.g., annual audit, CAO, Contracts & Purchasing, etc.) are allocated to direct service departments. We allocated the amounts charged to each of the four departments above on the same basis as Allocated Non-Salary expenses.
- Simulate Different Scenarios
 - We discussed different scenarios with the Cannabis Program. Based on the types and volume of permits (initial versus renewal), we recommend the following:
 - The County's permit fees should all be paid at **time of application**, not when the County issues the permit.
 - This means that the permit fee would be based on the average cost for issuing a Cannabis Business Permit, not the cost of issuing each individual permit
 - This would reduce staff effort in several departments as they would no longer report time by individual permit application
 - This would also eliminate the time spent in sending additional invoices to applicants as well as in processing refunds to applicants
 - ,The County should have one permit fee that applies to all applications. While the Initial permit fee is 4.35 times the Renewal fee, the overall estimated cost for renewal permits is not significantly less than for an initial permit.

MGT calculated that the overall cost for all permits is \$4,310 per application.

	CAO	County Counsel	HCD	HD-EHB	Total
Direct Labor	\$ 119,444	\$ 17,368	\$ 16,387	\$ 64,271	\$ 217,470
Allocated Non-Salary	21,659	26,769	3,312	3,867	55,607
Indirect Expense	232,346		2,647	9,085	244,078
Total	\$ 373,449	\$ 44,137	\$ 22,346	\$ 77,223	\$ 517,155
Units	120	120	120	120	120
Total Cost Per Unit	\$ 3,112	\$ 368	\$ 186	\$ 644	\$ 4,310
Note:					
Indirect Expense for County Counsel was included with other appropriated expenses					

- The only department that indicated that renewal permits cost less than initial permits was Environmental Health Bureau:

Permit Type	CAO	County Counsel	HCD	HD-EHB
Initial	\$3,086	\$365	\$185	\$1,274
Renewal	\$3,086	\$365	\$185	\$633
Percent Difference	0.0%	0.0%	0.0%	-50.3%

- Propose New Fee Structure
 - MGT calculated the cost of current permits as follows:

Permit Type	CAO	County Counsel	HCD	HD-EHB	Total
Initial	\$3,086	\$365	\$185	\$1,274	\$4,910
Renewal	\$3,086	\$365	\$185	\$633	\$4,269

The cost for the Renewal permit in Environmental Health Bureau was about half of the Initial permit. Total costs across all four departments were \$4,910 for an Initial permit and \$4,269 for a Renewal permit. Note that the number of Renewal permits may range from 120 to 150. The cost per permit in the above table is the “cost to process one permit”. The “cost per one” would not vary based on the total number of permits.

Different numbers of permit would impact revenues, not necessarily the cost for one permit. Given that there may be only one Initial permit per year, MGT recommends the following:

- The County adopt a single fee that would apply to all permits, initial and renewal. The County should collect the fee at the time of application and that there should not be any subsequent billings to applicants or permit holders unless there are lengthy appeals, litigation or enforcement issues.

While the total cost is \$517,155 based on renewal license activity of 120 applications, increasing the application volume to 150 would not impact the total cost per license of \$4,310. MGT recommends combining the initial and renewal fees into a single fee. Should the County want to base this fee on the cost, the fee would be \$4,310, the weighted average of the above costs.

The CAO Program Manager requested that we estimate the impact of:

- A 2.5% Cost of Living Adjustment (COLA) on the cost per CNB. We only applied the COLA to the direct labor of the personnel directly involved in the CNB. MGT estimates the COLA adjustment would increase the Total Cost Per Unit from \$4,310 (shown above) to \$4,355 (shown below).
- Adding a new fee to recover the cost of Modifications to existing permits.

The impact of including the 2.5% COLA factor is in the following table. It adds \$86 to the total cost.

	CAO	County Counsel	HCD	HD-EHB	Total
Direct Labor	\$ 122,430	\$ 17,802	\$ 16,797	\$ 65,878	\$ 222,907
Allocated Non-Salary	21,659	26,769	3,312	3,867	55,607
Indirect Expense	232,346		2,647	9,085	244,078
Total	\$ 376,435	\$ 44,571	\$ 22,756	\$ 78,830	\$ 522,592
Units	120	120	120	120	120
Total Cost Per Unit	\$ 3,137	\$ 371	\$ 190	\$ 657	\$ 4,355
Note:					
Indirect Expense for County Counsel was included with other appropriated expenses					

An overall County-wide COLA would effect the Indirect Expense as well but only a portion of Indirect Expense is personnel related.

MGT calculated the cost of Modifications as \$1,070 per Modification.

Permit Type	CAO	County Counsel	HCD	HD-EHB	Total
Initial	\$3,086	\$365	\$185	\$1,274	\$4,910
Renewal	\$3,086	\$365	\$185	\$633	\$4,269
Modifications	\$1,070				\$1,070

- Provide Final Report

In progress.

CHAPTER 3. Recommendations

MGT determined the cost of issuing CNBs. The County Board is responsible for establishing the fee structure and fees. MGT recommends the following:

- Adopt a single fee that would apply to all Cannabis Business Permits, Initial and Renewal.
- Add a fee for Modifications of existing permits or fiscal year registration form.
- The County should collect the fees at the time of application and that there should not be any subsequent billings to applicants or permit holders unless there are lengthy appeals, litigation or enforcement issues. The County would have the option of imposing a higher fee in unusual cases.
- The Board of Supervisors Cannabis Committee should recommend the amount of the fee and gain approval of the full Board.

The County also pays administrative fees to the CA Cannabis Authority (“CCA”). The administrative fee is based on gross sales and is estimated at \$280,000 for the current year. This fee would be about .3 percent (.003) of gross sales (gross sales are expected to increase from \$54 to \$97 million). Compared to total cannabis revenues (estimated at \$15.4 million next year), the fee is 1.8% of total revenues.² If added to the costs of the CNB permit, the additional cost per permit would be \$2,333 (based on 120 total permits). The County Board may want to balance the impact on permittees by adding a percentage of the total CCA administrative fees to the Cannabis Business Permit fee.

² Page 58 of the FY 20-21 Budget