



CANNABIS PROGRAM
MONTEREY COUNTY

Board of Supervisor
Agenda Item No. 22-724
July 26, 2022

Commercial Cannabis Board Report

- Commercial Wholesale Price Points
- Elimination of the State Cultivation Tax
- Options 1-4
- Additional Consideration to Rate Option
- Other Considerations
 - Sunset of Department of Cannabis Control Provisional Licenses
 - California Cannabis Authority/NCS Analytics – Monthly reports including wholesale price points by sales type
 - Commercial Cannabis Business Audits
 - Monterey County Code Chapter 7.90 – Delinquency
 - Cannabis Program Allocations
 - Measure Y

Wholesale Price Points

- Wholesale Pricing and related reporting.
- Weighted Averages.
- State Cultivation Tax.
- Industry Monthly Reports – Pricing.

Elimination of State Cultivation Tax

- Absent a significant change in consumer demand, substantial oversupply puts downward pressure on wholesale prices, notwithstanding the tax/cost reduction.
- Absorption of the cost reduction between supply chain participants (Cultivators, Distributors, and Retailers) and to what extent remains uncertain.
- Because Cultivators are required by law to transfer/sell through an in-State Distributor, and Retail outlets remain limited, competitive forces and oversupply favor Distributors and Retailers in the supply chain.
- Industry has represented that the cost reduction will mostly be absorbed by Retailers. Though given their unique role, Distributors may realize significant benefits from the cost reduction as well.
- Whether the reduction in cost will ultimately reduce retail prices remains uncertain.

Detail of Option 1

FY 21-22 COLLECTIONS BY ALL CULTIVATION OPERATORS CURRENT AND DELINQUENT (includes amounts collected to date & Penalties and Interest are not included)	
	<i>OPTION #1</i> PAYMENT PLAN ON FY 21-22 BALANCE DUE (WITHOUT RATE CHANGES)
Total collected to date FY 21-22	\$6,862,435.10
Total refunds due	
Total remaining due to date	\$7,784,448.56
ESTIMATED FY 21-22 COLLECTION:	\$14,646,883.66
ESTIMATED COLLECTION OF 25% down for payment plan due by August 31, 2022	\$1,946,112.14
Estimated monthly payments over 10-month term:	\$583,833.64

- **FY 21-22 Rates**
- **Payment Plan Details**
- **Financial Impact**
- **Total Tax Due**
- **Equity Impact**
- **Benefits to Operator**
- **Benefits to County**
- **Consequences to Operator**
- **Consequences to County**

Detail of Option 2

FY 21-22 COLLECTIONS BY ALL CULTIVATION OPERATORS CURRENT AND DELINQUENT (includes amounts collected to date & Penalties and Interest are not included)	
	OPTION #2 RETROACTIVE RATE REDUCTION TO FY 21-22 Q1 \$3/\$2/\$1
Total collected to date FY 21-22	\$6,862,435.10
Total refunds due	\$(1,219,060.48)
Total remaining due to date	\$2,364,987.60
ESTIMATED FY 21-22 COLLECTION:	\$8,008,362.22

- **FY 21-22 Rates**
- **Payment Plan Details**
- **Financial Impact**
- **Total Tax Due**
- **Equity Impact**
- **Benefits to Operator**
- **Benefits to County**
- **Consequences to Operator**
- **Consequences to County**

Detail of Option 3

FY 21-22 COLLECTIONS BY ALL CULTIVATION OPERATORS CURRENT AND DELINQUENT (includes amounts collected to date & Penalties and Interest are not included)	
	OPTION #3 RETROACTIVE RATE REDUCTION TO FY 21-22 Q2 \$3/\$2/\$1 (EXISTING RELIEF PERIOD)
Total collected to date FY 21-22	\$6,862,435.10
Total refunds due	\$(384,229.73)
Total remaining due to date	\$3,986,397.11
ESTIMATED FY 21-22 COLLECTION:	\$10,464,602.48

- **FY 21-22 Rates**
- **Payment Plan Details**
- **Financial Impact**
- **Total Tax Due**
- **Equity Impact**
- **Benefits to Operator**
- **Benefits to County**
- **Consequences to Operator**
- **Consequences to County**

Detail of Option 4

FY 21-22 COLLECTIONS BY ALL CULTIVATION OPERATORS CURRENT AND DELINQUENT (includes amounts collected to date & Penalties and Interest are not included)	
	OPTION #4 WAIVE CULTIVATION TAX FY 21-22 Q2, Q3 and Q4
Total collected to date FY 21-22	\$6,862,435.10
Total refunds due	\$(1,680,967.95)
Total remaining due to date	\$444,496.92
ESTIMATED FY 21-22 COLLECTION:	\$5,625,964.07

- **FY 21-22 Rates**
- **Payment Plan Details**
- **Financial Impact**
- **Total Tax Due**
- **Equity Impact**
- **Benefits to Operator**
- **Benefits to County**
- **Consequences to Operator**
- **Consequences to County**

Detail of Options 1 - 4

FY 21-22 COLLECTIONS BY ALL CULTIVATION OPERATORS CURRENT AND DELINQUENT (includes amounts collected to date & Penalties and Interest are not included)				
	<i>OPTION #1</i> PAYMENT PLAN ON FY 21-22 BALANCE DUE (WITHOUT RATE CHANGES)	<i>OPTION #2</i> RETROACTIVE RATE REDUCTION TO FY 21-22 Q1 \$3/\$2/\$1	<i>OPTION #3</i> RETROACTIVE RATE REDUCTION TO FY 21-22 Q2 \$3/\$2/\$1 (EXISTING RELIEF PERIOD)	<i>OPTION #4</i> WAIVE CULTIVATION TAX FY 21-22 Q2, Q3 and Q4
Total collected to date FY 21-22	\$6,862,435.10	\$6,862,435.10	\$6,862,435.10	\$6,862,435.10
Total refunds due		\$(1,219,060.48)	\$(384,229.73)	\$(1,680,967.95)
Total remaining due to date	\$7,784,448.56	\$2,364,987.60	\$3,986,397.11	\$444,496.92
ESTIMATED FY 21-22 COLLECTION:	\$14,646,883.66	\$8,008,362.22	\$10,464,602.48	\$5,625,964.07
ESTIMATED COLLECTION OF 25% down for payment plan due by August 31, 2022	\$1,946,112.14			
Estimated monthly payments over 10-month term:	\$583,833.64			

Detail of Additional Consideration

FY 21-22 COLLECTIONS BY ALL CULTIVATION OPERATORS CURRENT AND DELINQUENT (includes amounts collected to date & Penalties and Interest are not included)	
	<i>OPTION #1</i> PAYMENT PLAN ON FY 21-22 BALANCE DUE (WITHOUT RATE CHANGES)
Total collected to date FY 21-22	\$-
Total refunds due	\$-
Total remaining due to date	\$-
ESTIMATED FY 21-22 COLLECTION:	\$(7,500,000.00)

- **Financial Impact**
- **Total Tax Due**
- **Equity Impact**
- **Benefits to Operator**
- **Benefits to County**
- **Consequences to Operator**
- **Consequences to County**

Other Considerations

Sunset of Department of Cannabis Control Provisional Licenses

- Large permittees must convert to annual state licenses in 2023.
 - Applies to cultivators with more than 22,000 square feet of canopy.
- Concern related to the industry's current financial situation and their ability to complete all local requirements such as meeting land use permit conditions, building and environmental health requirements, fire suppression.

Other Considerations

California Cannabis Authority/NCS Analytics

- Anomalies and gaps in monthly data provided by industry.
 - Outliers are omitted.
- Operators not required to report monthly sales if:
 - Exclusively making internal transfers.
 - Transferring product to licensee located outside of County.
- Pricing determined by the average data collected by cultivation type for January – June 2022:
 - Cultivator (Mixed Light) \$504
 - Processor (Mixed Light) \$463
 - Distributor (Mixed Light) \$666
 - Cultivator (Indoor) \$1,107
 - Distributor (Indoor) \$1,285

Other Considerations

Commercial Cannabis Business Audits

- Pursuant to MCC 7.100.190, the TTC has authority to conduct audits.
- Counties have begun audits of commercial cannabis businesses.
 - Consider retaining consultant, funded by Cannabis Assignment.

Other Considerations

Monterey County Code Chapter 7.90 – Delinquency

- Pursuant to MCC 7.90.100(A)(21), permittees shall not be delinquent in the payment of:
 - State taxes and fees.
 - County taxes and fees.
 - Other local agencies' taxes and fees.
- Delinquent permittees would be required to cease operations.
 - Board may direct staff to amend ordinance.

Other Considerations

Cannabis Program Allocations

- FY 22-23 allocations funded by cannabis revenue total \$7.1m.
- Program reviewed allocations and duties with Cannabis Committee.
 - Emphasis on original intent for allocations to be 100% dedicated.
- Auditor-Controller staff reviewing resource utilization and revenues.
 - Findings report to Cannabis Committee in fall 2022.

Other Considerations

Measure Y

- Options which reduce tax to \$0 contradict understanding of voters.
 - Intended to offset costs of County services required by industry.
- Revenue in excess of administrative costs intended for County services.

Overview of Options 1-4

Option #1: Payment Plan without rate reduction on all remaining due cannabis cultivation tax for FY 21-22, no penalties and interest

Payment Due August 31, 2022

25% down payment is: \$1,946,112

Estimated monthly payments: \$583,000

Total Fiscal Year Estimated Collection in this option: \$14,646,883.66

Option #2: Retroactively reduce cultivation rates to \$3/\$2/\$1 to Q1 FY 21-22, no penalties or interest

Payment Due 7/31/22 or 10/31/22

Refunds to operators who timely paid: \$1,219,060.48

Total Fiscal Year Estimated Collection in this option \$8,008,362.22

Option #3: Retroactively reduce cultivation rates to \$3/\$2/\$1 to Q2 FY 21-22 (existing amnesty period), no penalties or interest

Payment due 7/31/22 or 10/31/22

Refunds to operators who timely paid: \$384,229.73

Total Fiscal Year Estimated Collection in this option \$10,464,602.48

Option #4: Waive FY 21-22 Q2, Q3 and Q4 cultivation taxes

Refunds to operators who timely paid: \$1,680,967.95

Total Fiscal Year Estimated Collection in this option: \$5,625,964.07

Additional Consideration: Waive Cultivation Tax for FY 22-23

Reduces cultivation rates for all operators to \$0

Significant impacts to FY 22-23 budget. \$7.5 million would not be available to fund operations previously approved in the adopted budget.



CANNABIS PROGRAM
MONTEREY COUNTY

Questions

Appendix

California Cannabis Authority/NCS Analytics

Month	Jan 2022	Feb 2022	Mar 2022	Apr 2022	May 2022	Jun 2022	YTD 2022
Cultivator (Mixed Light)	\$598	\$627	\$445		\$599	\$250	\$504
Processor (Mixed Light)	\$463	\$547	\$429	\$507	\$447	\$376	\$463
Distributor (Mixed Light)	\$812	\$681	\$712	\$712	\$621	\$657	\$666
Cultivator (Indoor)	\$1,456	\$1,158	\$948	\$1,010	\$1,169	\$752	\$1,107
Distributor (Indoor)	\$964	\$1,429	\$934	\$1,293	\$1,653	\$1,508	\$1,285

Appendix

Cannabis Program Allocations (All allocations funded by cannabis)

Department	FTE Count	Staff Costs	Non-Staff Costs	Total Costs
Ag Commissioner	2.50	\$395,423.00	\$71,305.00	\$466,728.00
Auditor Controller	1.00	\$198,454.00		\$198,454.00
BOS	0.00		\$19,500.00	\$19,500.00
CAO Program	6.00	\$897,208.00	\$853,867.00	\$1,751,075.00
CC	1.00	\$288,602.00		\$288,602.00
DA	3.50	\$849,198.00		\$849,198.00
Health	6.25	\$1,018,461.00	\$225,000.00	\$1,243,461.00
HCD	3.00	\$433,330.00	\$40,000.00	\$473,330.00
PWFP	3.00	\$333,670.00		\$333,670.00
Sheriff Office	2.00	\$542,364.60	\$269,223.77	\$811,588.37
TTC	1.98	\$297,853.87	\$127,849.65	\$425,703.52
CAO	0.00		\$190,000.00	\$190,000.00
DSS	1.00	\$80,031.00		\$80,031.00
	31.23	\$5,334,595.47	\$1,796,745.42	\$7,131,340.89

Appendix

Cannabis Program Allocations (Dedicated Only)

Department	FTE Count	Staff Costs	Non-Staff Costs	Total Costs
Ag Commissioner	2.50	\$395,423.00	\$71,305.00	\$466,728.00
Auditor Controller	1.00	\$198,454.00		\$198,454.00
CAO Finance	1.00	\$119,728.00		\$119,728.00
CAO Program	5.00	\$777,480.00	\$853,867.00	\$1,631,347.00
CC	1.00	\$288,602.00		\$288,602.00
DA	3.50	\$849,198.00		\$849,198.00
Health	4.25	\$704,526.00	\$225,000.00	\$929,526.00
HCD	3.00	\$433,330.00		\$433,330.00
Sheriff Office	2.00	\$542,364.60	\$269,223.77	\$811,588.37
TTC	1.98	\$297,853.87	\$127,849.65	\$425,703.52
	25.23	\$4,606,959.47	\$1,547,245.42	\$6,154,204.89

Appendix

Cannabis Program Allocations (Non-Cannabis)

Department	FTE Count	Staff Costs	Non-Staff Costs	Total Costs
DSS	1.00	\$80,031.00		\$80,031.00
Health	2.00	\$313,935.00		\$313,935.00
PWFP	3.00	\$333,670.00		\$333,670.00
BOS	0.00		\$19,500.00	\$19,500.00
CAO	0.00		\$190,000.00	\$190,000.00
HCD	0.00		\$40,000.00	\$40,000.00
	6.00	\$727,636.00	\$249,500.00	\$977,136.00