



Board Report

File #: 21-385, Version: 1

- a. Receive a report on the findings of the Cannabis Business Permit fee study; and
- b. Consider adoption of a resolution amending Articles I.E (Heath Department), IX (Housing and Community Development), XVII (Office of the County Counsel), and XXI (County Administrative Office - Cannabis Program) of the Monterey County Master Fee Resolution to update fees for processing Cannabis Business Permits.

RECOMMENDATION:

It is recommended that the Board of Supervisors:

- a. Receive a report on the findings of the Cannabis Business Permit fee study; and
- b. Consider adoption of a resolution amending Articles I.E (Heath Department), IX (Housing and Community Development), XVII (Office of the County Counsel), and XXI (County Administrative Office - Cannabis Program) of the Monterey County Master Fee Resolution to update fees for processing Cannabis Business Permits.

SUMMARY

In December 2020, the Board of Supervisors adopted a resolution to approve and fund a Cannabis Business Permit (“CNB”) study to establish a fee intended to reduce staff time required to process and issue CNBs. Monterey County (“County”) retained MGT Consulting LLC (“MGT”) to determine the cost of issuing CNBs for commercial cannabis operators including cultivators, distributors, processors, manufacturers and retailers. MGT has previously assisted the County on many cost of service analyses. MGT has 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.

The County currently has two deposits for the CNBs: \$4,653 for an initial permit and \$1,069 for a renewal permit. Findings from the fee study have supported the implementation of a standard fee for initial and renewal applications. These findings were reviewed by the Cannabis Committee in March 2021 and Program staff was directed to present findings to the Board of Supervisors for review and consideration to adopt a resolution amending various articles of the Monterey County Master Fee Resolution to update fees for processing CNBs. If adopted, these amendments would take effect no sooner than 30 days from the date of adoption.

DISCUSSION

Approach to the Project

Four departments are involved in issuing CNBs:

1. County Administrative Office (“CAO”) Cannabis Program (“Program”)
2. Office of the County Counsel
3. Health Department, Environmental Health Bureau (“EHB”)
4. Housing and Community Development Department (“HCD”), formerly Resource Management Agency

During this project, MGT determined the costs of each departments through the following analyses.

Review Historical Fee Structure & Fee Collection Data

The County currently has two permit deposits: initial permit and renewal permit. The initial permit is valid for one year and all permits must be renewed annually.

The Program has issued 14 CNBs and there are an additional 99 in the queue as initial permits. Annual renewal volume would range from 120 to 150 as the Program anticipates a moderate amount of new permittees to submit applications in the future.

Conduct Cost Analysis

To establish costs on a unit basis, MGT reviewed the following areas with each department:

- Allocations in the Fiscal Year 20-21 Adopted Budget.
- Staff involved in the permit review and issuance process.
- Staff time required for review and issuance of permits.
- Budgetary units in the department and how to allocate non-staff costs.
- County's Central Services Cost Allocation Plan ("CAP") to determine how to incorporate allocations for central service and direct service departments.
- Cost-of-service model.
- Findings.

MGT reviewed the following types of costs in each department:

1. Direct Labor

MGT interviewed County department supervisors to identify staff involved in the CNB process and the estimated time needed to process applications. Labor rates by individual include salaries and benefits. EHB staff indicated that the budget provides for a total of 72 positions, however 11 of the positions are currently vacated. These vacant positions do not impact CNB processing.

Staff costs (salary and benefits) are usually the largest cost component for any service department. Estimates for staff time required for each CNB application can be seen in Attachment A, Exhibit 1.

2. Allocated Non-Staff Costs

These costs were allocated to direct services on the basis of direct labor by service. For example, if CNB activities represent 5% of total salaries and benefits, 5% of non-salary expenses were allocated to CNB activities.

3. Indirect Expense Allocation

Each year, the County prepares a CAP where central administrative costs (e.g., annual audit, CAO, Contracts & Purchasing, etc.) are allocated to direct service departments. MGT allocated the amounts charged to each department on the same basis as Allocated Non-Staff costs. Indirect expenses for County Counsel was included with other appropriated expenses.

Simulate Different Scenarios

Based on the types and volume of permits (initial versus renewal), MGT recommends CNB 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 CNB as opposed to the cost of issuing each individual permit. This would eliminate the need to track staff time for individual permit applications in addition to the preparation of invoices or refunds to applicants when the permit is ready to issue.

MGT recommends the County should have one fee that applies to all permit 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 \$4,355 per application. (Attachment A, Exhibit 2) The total costs per unit are reflected in the proposed amendments to departmental articles of the Monterey County Master Fee Resolution. (Attachment B, Exhibits 1 through 4)

The cost per permit reflects the cost to process one permit, with only EHB renewal costs calculated at less than initial permits. (Attachment A, Exhibit 3) Total costs across each department were \$4,910 for an Initial permit and \$4,269 for a Renewal permit. While the total cost of \$517,155 is based on 120 applications, increasing the application volume to 150 would not impact the \$4,355 cost to process each permit.

Should the County want to base this fee on the cost, the fee would be \$4,355, the weighted average of the above costs. A 2.5% Cost of Living Adjustment (“COLA”) was applied to the direct labor of the personnel directly involved in the CNB and is reflected in this \$4,355 cost. MGT also calculated the County cost of administering modifications to permits or fiscal year registration forms at \$1,070.

Recommendations

MGT has determined the cost of issuing CNBs and recommends the following:

- Adopt a single fee that would apply to all CNBs, both initial and renewal.
 - Collect fee at the time of application and eliminate subsequent billings to applicants or permit holders unless there are lengthy appeals, litigation or enforcement issues.
 - Retain option of imposing a higher fee in unusual cases.
- Add a fee for processing modifications to existing permits or registration forms.

The Program receives requests for information regarding individual commercial cannabis businesses related to other miscellaneous items, such as compliance questions. The Program recommends amending the the Cannabis Program Fee Article XXI to include a research fee of \$74 per hour, which aligns with similar fees charged by County departments for processing such research requests.

Staff concurs with the findings of the MGT Consulting report and recommends the following:

- Adopt a single fee of \$4,355 for an initial or renewal Cannabis Business Permit.
- Adopt a modification fee of \$1,070 for each modification request to the Cannabis Business Permit, or Fiscal Year Registration form which is the process used prior to the issuance of a CNB.
- Adopt a Research Fee of \$74 for a request for information regarding individual commercial cannabis businesses.

OTHER AGENCY INVOLVEMENT:

The Cannabis Program, Housing and Community Development Department, Office of the County Counsel, Health Department, Environmental Health Bureau were involved in the Cannabis Business Fee Study analysis.

FINANCING:

Monterey County’s Cannabis Program is funded in County Administrative Office - Department 1050, Intergovernmental and Legislative Affairs Division - Unit 8533, Cannabis. The approval of this report will not incur additional expenses at this time.

BOARD OF SUPERVISORS STRATEGIC INITIATIVES:

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

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Attachments:

- A: CNB Fee Study Analysis Excerpts
- B: Draft Resolution of the Monterey County Board of Supervisors Amending Articles I.E, IX, XVII, and XXI of the Monterey County Master Fee Resolution to update fees for processing Cannabis Business Permits
- C: MGT Consulting Final Report