



Board Report

File #: BC 20-151, **Version:** 1

Receive an update on the recently adjusted California Cannabis Authority (“CCA”) fee schedule for fiscal year 2020-21, and support authorizing the Auditor-Controller to amend the FY 2020-21 Adopted Budget for the Cannabis Program (001-1050-8533-CAO004) to increase appropriations by \$120,000, where the financing source is the Cannabis Tax Assignment fund balance (001-3132).

RECOMMENDATION:

It is recommended that the Budget Committee:

- a. Receive an update on the recently adjusted California Cannabis Authority (“CCA”) fee schedule for fiscal year 2020-21;
- b. Support authorizing the Auditor-Controller to amend the FY 2020-21 Adopted Budget for the Cannabis Program (001-1050-8533-CAO004) to increase appropriations by \$120,000, where the financing source is the Cannabis Tax Assignment fund balance (001-3132); and
- c. Provide direction to Program staff regarding CCA funding for future years.

SUMMARY

On October 30, 2020, the Cannabis Program (“Program”) presented a report to the Board of Supervisors Cannabis Committee (“Committee”) on the adjusted California Cannabis Authority (“CCA”) fee schedule, and a recommendation to support the authorization of an augmentation request to fund the variance of approximately \$120,000 to meet the anticipated CCA administrative fees for the current fiscal year. The Committee directed staff to move forward with the report to the Budget Committee and Board of Supervisors without a recommendation.

During the budget process in the spring of 2020, the Committee and the Board of Supervisors requested the Treasurer-Tax Collector (“TTC”) to approach the CCA and request a modification to the fee schedule. The CCA Board subsequently voted and adopted a reduced fee structure that is tiered by volume to better allocate fees among its member counties and incentivize larger cultivation counties to join the joint powers agreement.

Despite the reduced fee structure, the County cost of the CCA will exceed the existing fiscal year funding allocation. The Program is recommending that funding for the current fiscal year be provided from the cannabis assignment and will seek the Board of Supervisors direction on future funding options.

DISCUSSION:

The California Cannabis Authority is a joint powers authority (“JPA”) originally established between Monterey and San Luis Obispo County to aggregate commercial cannabis data from multiple sources into a single cloud-based platform. The data platform provides a sophisticated analytics engine that makes it possible for local governments to efficiently and effectively deploy resources.

The CCA data platform distills a vast amount of otherwise unintelligible data into meaningful, actionable intelligence in support of local licensing, code enforcement and tax collection. It also provides a forum for members to collectively participate in State of California cannabis policy, share best practices, resolve ambiguities, and promote the uniform application of the law.

In addition to Monterey and San Luis Obispo, Yolo, Humboldt, Inyo, and Lassen counties participate in the CCA platform. At the September 2020 board meeting of the CCA, the members voted to adjust the fees charged to counties and cities. The new structure provides for a fixed quarterly fee and a tiered platform usage fee that declines as reported sales increase. Staff recently learned Santa Barbara County is considering membership and a report will likely be presented in early 2021 to its Board of Supervisors for consideration.

Program staff has analyzed this new fee structure and estimates it will reduce CCA future costs by approximately \$35,000 in FY 2020-21. This new fee structure would also further reduce fees by aggregating transacted amounts of participating cities within Monterey County. Staff estimates if the cities joined, the County would have an additional savings of \$50,000, for a total possible reduction of \$85,000 annually. It is also important to note that this calculation is based on the substantial increase in commercial cannabis sales, from \$54 million in FY 19-20 to \$97 million in FY 20-21.

Program staff has estimated that even with the CCA reduction in costs, the large increase expected in reported sales transactions will require additional funding to pay the CCA fees. It is currently estimated that an additional \$120,000 will be necessary to fully fund the CCA this year, including a slight shortfall of \$9,973 carried over from FY 19-20. \$100,000 was allocated for CCA administrative fees in FY 20-21. Following the FY 20-21 Q1 CCA invoice, the current balance of the CCA allocation is \$24,592. While the total fees paid to the CCA may seem large, they are small in relative terms, representing just 1.2% of the total tax amount collected last year, and on track to be much less than 1% of the taxes collected this year. To that end, staff is requesting a transfer of \$120,000 from the cannabis assignment account to fully fund the CCA this year.

Program staff is also exploring options to continue to fund the CCA in future years, minimizing the draw from actual tax dollars. Staff is considering incorporating a portion of the estimated CCA fees into the annual cannabis business permit fee, as well as seeking a reallocation and return of underutilized appropriations from departments to the Program. Rightsizing allocations to actual cannabis program participation will help to better define, and report on, true program costs. While staff have just begun this process of outreach and details are limited at this time, Committee direction would be helpful to the Program in moving forward.

The County is beginning to realize the benefits of timely visibility into the local cannabis industry. At this time, there are no viable alternatives to the CCA data platform. The Program, the TTC, and the CCA have worked closely with industry operators to eliminate the burden of reporting redundancy by instead requiring that Metrc Application Programming Interface keys be shared, which allow the platform to pull data directly and automatically from Metrc. By the end of July 2020, compliance with this requirement was at 100%.

Monterey County continues to serve as a progressive example for the legal cannabis industry by working with the CCA to pioneer a comprehensive, data driven approach to compliance. The continuation of this relationship will ensure the foundational and sustained compliance of the cannabis industry within Monterey County. County staff have embraced CCA data and individuals from multiple departments meet weekly to better understand the robust CCA platform and apply this knowledge to compliance and tax collection efforts.

Maintaining adequate funding for the CCA is essential for FY 20-21 as the Program continues to work with the TTC to identify funding options for future years. CCA is currently the only source of real time Metrc data. While there is a Memorandum of Understanding in place between the County and the California Department of Food and Agriculture for the California Cannabis Track and Trace System, real time data is not yet available and it is uncertain if or when this may become available. If the Program loses visibility to Metrc data, staff will not be able to review and analyze operator data. Metrc data is imperative to ensuring the integrity of Monterey

County cannabis transactions from seed to sale.

It is important that Monterey County maintains a position of leadership in the state and that we demonstrate a commitment to regulating this emerging industry. In addition, with the passing of AB1525, the only way the county can provide the requested data to a financial institution is by utilizing the CCA platform. Without access to the data contained only in the CCA database, there will be virtually no information to provide to a financial intuition, rendering this newly chaptered law ineffectual to the industry.

OTHER AGENCY INVOLVEMENT:

The Treasurer-Tax Collector is the CCA representative for Monterey County and collaborated on the information provided in this report. There are currently 18 users from the TTC, Cannabis Program, District Attorney, Environmental Health, and RMA that utilize CCA data.

FINANCING:

Based on the estimated projections of current transacted amounts, there is a need for additional funding to pay current year fees. An additional \$120,000 is being requested from the cannabis assignment funds. The current balance of the cannabis assignment is \$15,427,846.49.

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

Prepared by: Joann Iwamoto, Cannabis Program Manager
Myles Echenique, Cannabis Analyst

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