



County of Monterey

Item No.10

Board Report

Board of Supervisors
Chambers
168 W. Alisal St., 1st Floor
Salinas, CA 93901

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Receive a report and recommendations from the County Administrative Officer regarding proposed FY 2023-24 reductions for the Monterey County Cannabis Program (Program) due to declines in available cannabis tax revenue; and, provide direction to incorporate Program reductions into the FY 2023-24 Recommended Budget (REVISED VIA SUPPLEMENTAL)

RECOMMENDATIONS:

It is recommended that the Board of Supervisors:

- a. Receive a report and recommendations from the County Administrative Officer regarding proposed FY 2023-24 reductions for the Monterey County Cannabis Program (Program) due to declines in available cannabis tax revenue; and
- b. Provide direction to incorporate Program reductions into the FY 2023-24 Recommended Budget.

DISCUSSION/SUMMARY:

In November 2016, voters in the County of Monterey approved a tax on commercial cannabis production and retail sales in the unincorporated area. The tax is a “general tax” which may be used for “general county purposes” at the discretion of the Board of Supervisors (Board).

Since 2016, the Board has allocated annual funding to cover the cost of the County Cannabis Program (Program) in the areas of public health, permitting, regulatory compliance and enforcement aspects as related to the local cannabis industry (industry) while also allocating significant cannabis general tax revenue annually to fund a variety of needs identified by the Board and the public in a series of workshops held in 2018 and at various budget workshops over the past several years. To date, the County has collected approximately \$82 million in revenue with approximate gross proceeds of \$589 million by the industry. Commensurate with the rapid growth of the local industry, staff allocated to the Program, funded by the revenue, has grown from 3.0 FTEs in FY 16-17 to a peak of 25.23 in FY 22-23. Below is a brief synopsis of the revenue, staffing and funding levels of the Program since voter approval in 2016. County departments/offices which are part of the Program and which receive funding for cannabis related positions include Treasurer -Tax Collector, Auditor-Controller, District Attorney, County Counsel, Sheriff, Health, Housing and Community Development and the County Administrative Office.

In FY 2016-17, the Board approved ordinances to allow commercial cannabis business operation including related tax rates within the unincorporated county. At that time, the Treasurer-Tax Collector was allocated staff to collect these taxes. The Program formally began in March 2018 when the

Program Manager II position was filled.

The Program allocations are funded through the collected revenue. At its historical peak, the County had collected \$20.1 million in FY 2020-21, but with the critical over saturation of commercial cannabis statewide, the impact of the cannabis “black market,” and the significant decline in wholesale price point, revenue significantly declined. The Board authorized formal payment plans to allow operators an extended period to pay taxes for FYs 2021-22 and 2022-23.

A breakdown of Program allocations approved by the Board since FY 2017-18 is attached to this report (Attachment A) for your reference.

In FY 2020-21, a budget augmentation for a Cannabis Business Permit Fee Study and the California Cannabis Authority fees (\$153,927) brought the total to \$5.2 million. In FY 2022-23, the cost of the Program increased with the reclassification of the Cannabis Program Manager and salary adjustments. The current Program cost is \$6.0 million, but as of April 2023 the revenue collected totaled \$2.8 million.

At the time of preparation of the FY 2023-24 Recommended Budget, the Program’s proposed budget included 18.48 FTEs at a cost of \$4,786,343; however, given the significant decline in revenue and protracted payments, the program cost is not sustainable and proposed for reduction at an approximate 20% or 40% level (hereon, referred to as 20% or 40% respectively). Attachment B includes the potential program reduction scenarios. The 20% reduction would eliminate revenue for “indirect costs,” generally defined as “overhead”, full funding for two FTEs in the Environmental Health Bureau as recommended by the Director of Health Services, and the County’s membership in the California Cannabis Authority. The 40 % reduction would include all the 20% reductions as well as reductions in full funding of various Program staff FTEs to less than a 100% level.

OTHER AGENCY INVOLVEMENT:

This report was prepared after discussion with the Cannabis Program Manager, Sheriff, District Attorney, Treasurer-Tax Collector, Auditor-Controller, County Counsel, Health Director and the Interim Director of Housing and Community Development.

FINANCING:

Reductions of 20% as proposed in this report would result in reductions of \$968,156 and a reduction of 40% would result in reduction of \$1,870,853. Specific program impacts associated with each reduction scenario will be presented during the meeting.

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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Approved by: Sonia M. De La Rosa, County Administrative Officer

Attachments:

A: Summary of Program Allocation approved since FY17-18

B: Program Reduction Scenarios