County of Monterey

Board Report

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Item No.

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

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Current Status: Agenda Ready
Matter Type: Budget Committee

a. Receive and accept the Cannabis Program fiscal year 2024-2025 annual budget review.

RECOMMENDATION:
It is recommended that the Budget Committee:

a. Receive and accept the Cannabis Program fiscal year 2024-2025 annual budget review

SUMMARY:
The Cannabis Program (Program) provides a local framework for the management of licensed commercial cannabis activities in coordination with state and county agencies to address taxation, regulation, enforcement, education, and the protection of the health, environment, and safety of our communities. The County is ranked sixth in the State of California for cannabis cultivation based on the number of active cultivation licenses.

The Program coordinates activities with and between key departments, external agencies, the Department of Cannabis Control, the cannabis industry, and public and community groups. Seven County departments and the fire districts work collaboratively to enforce local cannabis policies and regulations as well as regulations imposed by the Department of Cannabis Control and various state and federal agencies. Each of these organizations plays a critical role and requires the Program to be well coordinated, with effective internal and external communication to ensure the policy direction of the Board of Supervisors is achieved.

DISCUSSION:
The cannabis industry is an important economic engine in the County of Monterey (County) and is challenged by taxes and regulatory hurdles heightened by a thriving illicit market. These issues collectively strain an industry forced to take protective measures, including scaling down and/or closing operations, and failing to pay taxes. Currently, there are 52 active commercial cannabis business, 8 dispensaries and 44 cultivators, operating within the County. These businesses are navigating a cannabis market downturn that began in 2021 while paying local taxes, and meeting state and local requirements for annual licensure.

The Program collects data from various sources that is shared within the annual budget review report for fiscal year 2024-2025 (Attachment A). The Board approved 14.15 positions at a cost of $3.4 million across seven departments to be used for cannabis related work with most departments spending eighty percent or more of their cannabis program allocation. The County received $259,948 in other non-tax related revenues. These revenues include items such as, direct fees for cannabis business licenses, permits, and building permit fees that are collected by the receiving department at their own discretion.

The Program received a grant award ($1,737,035) in 2022 from the Department of Cannabis Control (DCC) to administer the Local Jurisdiction Assistance Grant (LJAG). Grant funds were utilized to facilitate the transition from provisional to annual cannabis business permits (CBP). LJAG had three goals: (1) provide pass-through funds to qualified cannabis licensees to assist in moving from provisional to annual licenses, (2) reimburse mitigation measure costs related to cannabis farmland, and (3) improve Accela Automation reporting and the on-line cannabis business permit application process. When the LJAG program began in 2022, the Program had 423 provisional license holders. Of those 423 provisional license holders, 39 utilized pass-through funds, and 16 of the 39 are still in business.

The Program had estimated 4 million in cannabis tax revenue for fiscal year 2024-2025, and a total of 3.9 million dollars was collected. The Program has estimated 3.5 million will be collected during fiscal year 2025-2026. Due to farm closures, the program anticipates a sharp decrease in cannabis tax revenue for fiscal year 2025-2026. Cannabis tax revenue is based on cultivation and nursery square footage declared on an annual or provisional cannabis business permit (CBP). All declared canopy must fall at or below the square footage shown on the CBP as measured during compliance inspections to ensure these limits are not exceeded.

The square footage for cannabis nursery and cultivation has slowly decreased since the economic downturn of 2021. As shared previously, this issue has strained an industry that has taken protective measures, such as scaling down cannabis operations. In addition to scaling down operations, several farms have moved to outdoor licenses to save money. Outdoor licenses (grown without lights) save money in two ways; 1) decrease cannabis tax payments from $1.46 to $0.71 per square feet and 2) decrease the cost of monthly power bills. Nevertheless, tax savings for the growers means a decrease in cannabis tax revenue for the County.

Cultivation cannabis tax revenue is billed annually and collected quarterly; however, canopy footage may be modified up to two times during the annual term of the CBP. Because of this fluctuation, cultivation tax revenue is reported as a projected annualized figure that assumes each business will remain operational and will not modify square footage up or down for the remainder of the fiscal year.

Formal payment plans for unpaid cannabis business tax installments are complete as of fiscal year 25. The fiscal year 2021-2022 payment plan was paid off by 11 participants and 21defaulted and/or ceased operations. The fiscal year 2022-2023 payment plan was paid off by 27 participants that ended December 2023.

In fiscal year 2024-2025, $2,245,177 was approved for release from the cannabis assignment balance. Of that amount, $524,430 was released and allocated for use towards five priority areas that include public safety, county improvements, and staffing/contracts.

OTHER AGENCY INVOLVEMENT/COMMITTEE ACTIONS:
Monterey County departments involved in preparing the Cannabis Program fiscal year 2024-2025 annual budget review include the Auditor Controller and Treasurer Tax Collector.

FINANCING:
Approval of this recommendation will not result in additional general fund contributions.

BOARD OF SUPERVISORS STRATEGIC PLAN GOALS:
The Program addresses each of the Strategic Initiative Policy Areas that promote the growth of a responsible and legal Monterey County cannabis industry.

Well-Being and Quality of Life
X Sustainable Infrastructure for the Present and Future
X Safe and Resilient Communities
X Diverse and Thriving Economy

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Attachment A: Cannabis Program fiscal year 2024-2025 annual budget review slide deck.