

1. California Medical Cannabis Taxation Table

Documents:

[2016-05-18 CALIFORNIA MEDICAL CANNABIS TAXATION TABLE.PDF](#)

2. Public Meeting Flyer - English

Documents:

[2016-05-18 PUBLIC MEETING FLYER - ENGLISH.PDF](#)

3. Meeting Notes

Documents:

[2016-05-18 MEETING NOTES.PDF](#)

4. Medical Cannabis Memo

Documents:

[2016-05-18 MEDICAL CANNABIS MEMO.PDF](#)

Jurisdiction	Tax Rate	Average Annual Revenue	Revenue Allocation	Facilities in Operation
Albany, City of	For Profit - \$25 per \$1,000 of gross receipts. Non-profit - \$25 per square foot.			
Berkeley, City of	\$25 per \$1000 of gross receipts	Declined to provide	General Fund	3 dispensaries
Cathedral City, City of	Up to 15 cents per dollar of proceeds or fraction thereof	N/A	General Fund	2 dispensaries
Desert Hot Springs, City of	\$25 per square foot for first 3,000 sf \$10 per square foot for remaining space			
Richmond, City of	5% of gross receipts	\$600,000.00	General Fund	3 dispensaries
Sacramento, City of	4% of monthly gross receipts	2.8 million	General Fund	30 dispensaries
San Jose, City of	10% of monthly gross receipts	6 million	General fund	16 collectives*
Santa Cruz, City of	7% of gross receipts but can go up to 10%	\$380,000.00	General fund	2 dispensaries
Santa Cruz, County of	7% of gross receipts but can go up to 10%	2 million	General Fund	13 dispensaries
Shasta Lake, City of	6% of gross receipts but can go up to 10%	\$400,000-\$500,000	General Fund	3 dispensaries
Stockton, City of	\$100 per \$1,000 gross receipts	Unable to obtain	Unable to obtain	None
Vallejo, City of	10% of gross receipts	1.2 million	General Fund	10 dispensaries
Monterey, County of	Unknown, proposing cultivation tax per square footage and % of gross receipts for other facilities	\$14 million estimated at full capacity	Unknown	None
Salinas, City of	Pending	Unknown	Unknown	None
Del Rey Oaks, City of	unknown % of gross receipts	Unknown, 1st year of operation	Unable to obtain	1 dispensary

*Collective may include dispensary, manufacturing and/or cultivation



Public Meeting

Medical Cannabis Advisory Committee

Wednesday, May 18, 2016

5:30-7:30 pm

Civic Plaza Community Rooms

275 Main Street, 4th Floor

Presentation and Discussion of:

Medical Cannabis Taxation

The City of Watsonville will hold a public meeting to discuss the taxation of the medical cannabis industry, as the second meeting in a series to review the draft Medical Cannabis Facilities Ordinance. This meeting will focus on review of medical cannabis taxes in other California jurisdictions with the goal of drafting an appropriate tax measure for the November, 2016 ballot

For more information please contact:
Suzi Merriam, Assistant Director, Community Development Department
City of Watsonville (831) 768-3050

City of Watsonville
Medical Cannabis Advisory Committee

Meeting Notes

May 18, 2016
5:30-7:30 p.m.

Meeting Topic: Cannabis Taxation

Technical Advisory Committee Members:

Dorma Baker	Bryce Berryessa	Erica Padilla Chavez	Allan Flores
Thomas Frye	Felipe Hernandez	Aaron Newsom	Ari Parker
Jarrad Pecoraro	Henry Robles	Jenny Sarmiento	

Staff:

Suzi Merriam, Assistant CDD Director
Ezequiel Vega, Administrative Services Director
Kurt Overmeyer, Senior Planner
Laurie Blackwood, Administrative Analyst
Doug Mattos, Administrative Analyst

- I. **Call to order:** Suzi Merriam called the meeting to order at 5:30 p.m.

- II. **Roll call:** Committee members present were Bryce Berryessa, Erica Padilla Chavez, Allan Flores, Thomas Frye, Felipe Hernandez, Aaron Newsom, Ari Parker, Jarrad Pecoraro, Henry Robles, and Jenny Sarmiento. Committee members absent was Dorma Parker. Staff present were Suzi Merriam, Laurie Blackwood, and Doug Mattos.

- III. **Cannabis Taxation- (continued from 4/27/2016 meeting)**
 - a) **Report by Staff:** Presentation was made by Suzi Merriam summarizing information requested by the Committee on tax structures in other California jurisdictions, recommended taxes for each type of business, and proposed allocation of the revenue generated by the taxes.

 - b) **Advisory Committee Questions:** Members asked about the proposed allocation, if it was sufficient, and if it could be designated in the proposed Ordinance. There were questions regarding what roles each of the City Departments designated in the proposed allocation will have in the implementation and on-going administration of the Medical Cannabis Facilities Ordinance and the reasons for basing the cultivation tax on square footage rather than gross receipts. The Members also asked about financial/audit systems, acceptable forms of payment, and possible changes to the existing Facilities Ordinance and tax structure proposed by Staff to make it more equitable for businesses to locate in Watsonville.

- c) **Public Input:** Several members of the public spoke in favor of modifying the proposed tax structure and existing Facilities Ordinance to make it more equitable for existing as well as new businesses to locate in Watsonville. Other comments were made regarding the benefit these types of businesses will have in Watsonville, particularly on crime, and the Police Department's role with respect to implementation and enforcement of the Facilities Ordinance.
- d) **Advisory Committee Discussion:** There was some discussion regarding what impact these types of businesses will have on the City and its resources and the difficulty in determining those exact needs at this time, the economic benefits to Watsonville and what that encompasses, and possible modifications to the proposed tax structure including reasons to support or deny.
- e) **Motion:** A motion was made by Ari Parker and seconded by Jarrad Pecoraro to recommend the following proposed tax structure and items to the City Council for consideration:

Cultivation – \$12 per square foot of grow area as the initial tax with a cap of \$15 per square foot of grow area.

Manufacturing – 1% of gross receipts as the initial tax with a cap of 2% of gross receipts.

Dispensaries – 6% of gross receipts as the initial tax with a cap of 10% of gross receipts.

Include language in the proposed tax ordinance that:

- i. no increases may be considered until March 2018 to allow for collection of data for City Council to consider in their re-examination of the initial tax; and
- ii. revenue generated by the tax be allocated to the General Fund with the intended allocation as proposed by Staff in the Memorandum to the Committee dated May 13, 2016.

Ayes: Bryce Berryessa, Allan Flores, Thomas Frye, Felipe Hernandez, Aaron Newsom, Ari Parker, Jarrad Pecoraro, Henry Robles.

Noes: Jenny Sarmiento

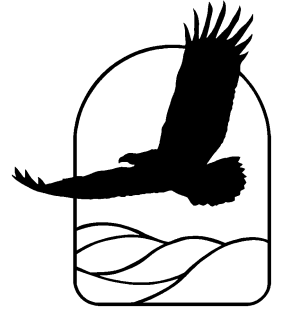
Abstains: Erica Padilla Chavez

Motion passed

- IV. Adjournment:** Meeting was adjourned at 8:08 p.m. The next meeting is scheduled for July 13, 2016 at 5:30 p.m.

City of Watsonville
Community Development Department

M E M O R A N D U M



DATE: May 13, 2016
TO: Medical Cannabis Advisory Committee
FROM: Suzi Merriam, Assistant CDD Director
SUBJECT: Taxation of Medical Cannabis
MEETING DATE: May 18, 2016

RECOMMENDATION:

Staff recommends that the Medical Cannabis Advisory Committee make the following recommendation to the City Council:

Adoption of an ordinance for a 10% tax on gross receipts for medical cannabis dispensaries, 2.5% value added tax on gross receipts for the manufacture of medical cannabis, and a \$20 per square foot tax for grow area of medical cannabis cultivation.

DISCUSSION:

Background: At the April 28, 2016 MCAC meeting, the Committee requested that staff bring back information on tax structures in other California jurisdictions and the following information:

- How much revenue has been generated by the tax
- How many facilities are operating in the jurisdiction
- What tax revenue is used for

Attached to this memo is the information staff was able to gather since the last meeting. The City needs to ensure that our resources are not adversely affected by medical cannabis uses in the City, and in order to implement the ordinance that was passed in January, additional revenue is required.

Process in Other Jurisdictions

From what we have found, the average California tax charged to dispensaries is 7%. Most jurisdictions focus on charging the tax to dispensaries. There are a variety of different methods for taxing cannabis, depending on the use. It's easy to add a sales tax to retail sales of cannabis, however it's not as easy to capture a tax on cultivation and manufacturing as there is not always a sale related to cultivation as some cultivators also process and/or sell medical cannabis at their own dispensary. To account for this, some cities have adopted a per-square-foot tax for cultivation.

The average annual revenue generated per dispensary from taxation in other jurisdictions is approximately \$183,000 based on the information provided to staff. The range is from a high of \$375,000 per collective in San Jose to a low of \$93,000 in Sacramento. The County of Santa Cruz receives an average of \$190,000 per dispensary with a 7% tax.

The sales tax ordinance adopted by the County of Santa Cruz in 2014 (Chapter 4.06: Cannabis Business Tax) caps the cannabis sales tax at 10%. As approved, the tax is currently set at 7%. The ordinance gives the Board of Supervisors the authority to raise or lower the tax as long as it does not exceed 10%.

Taxation on Different Medical Cannabis Uses

Cultivation Tax

Staff has investigated the potential revenue of a single 5,000 square foot canopy grow. Based on interviews with growers and with both Colorado and California dispensaries, staff estimates that a cultivation use of this size could generate between \$290,000 and \$1 million in revenue.

Staff recommends that the Committee consider a tax of \$20 per square foot of grow area for cultivation uses. Placed under the Business License Tax Ordinance in the Municipal Code, a 5,000 square foot canopy would pay \$100,000 annually. Based on the revenue estimates described in the previous paragraph, this would equate to a tax rate of between 10%- 34%.

Manufacturing and Processing Tax

If processing and manufacturing are allowed in Watsonville in the future, this is an area where value is added throughout the product life. A medical cannabis manufacturer could have gross revenues of \$1.8-\$2.0 million per year. Tax revenues based on a tax at 2.5%, 5% or 10% would be around \$45,000, \$90,000 and \$180,000 respectively.

Staff recommends that the Committee consider a 2.5% tax on manufacturing, which would fall under the Business License Ordinance.

Dispensary Tax

Most Cities have adopted a tax on retail sales of medical cannabis, as most jurisdictions have approved dispensary uses ahead of any other type of medical cannabis use. Assuming a dispensary were to sell the output from two small grows, half of a manufacturer's production of oil and wax and half of a manufacturer's edibles, the average dispensary could generate revenues of roughly \$7.5M per year. Assuming a 7-10% sales tax (like the County of Santa Cruz), the City's revenues from one dispensary could be between \$525,000-\$750,000 per year.

Staff recommends that the Committee consider a tax structure for dispensaries similar to the tax adopted in the County of Santa Cruz, in which the tax is capped at 10% but can be adjusted depending on County needs and market demand.

Revenue Generation from Medical Cannabis

In order to enforce the Medical Cannabis Facilities Ordinance, the City will need additional funding through a tax, similar to what other jurisdictions in the state have done. Staff is proposing that revenue from taxation on medical cannabis cultivation, dispensaries, and manufacturing will go to the General Fund and earmarked for the following departments:

Department	Portion of Tax Revenue
Police Department – Personnel	20%
Fire Department – Personnel	15%
Community Development Department - Personnel	15%
Parks and Community Services - Personnel	20%
Parks and Community Services - Programming	10%
Library – Personnel and Resources	8%
Non Profit Grants – Recipients Determined by Council	12%

The tax would fund enforcement for the Community Development, Fire, and Police Departments, would provide funding for prevention programming for the Parks and Community Services Department, and Library, it will also provide funding for drug prevention, substance abuse, and outreach programs. It is estimated that at least one position from Police, CDD and a portion of a position in Finance will be necessary to implement the Ordinance, depending on the types and number of facilities approved by the City Council, this could change.

ALTERNATIVES:

The Committee could:

1. Continue the discussion to a later date, however the Ordinance must go to the City Council for consideration by June 28, 2016
2. Make a recommendation to the City Council for a different tax rate

ATTACHMENTS:

1. Medical cannabis tax comparison table