

# Cannabis Tax Measures

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Board of Supervisors  
March 12, 2024



County Executive Office

# Outline

- **Background**
  - Goals for potential revision of tax structure
  - Current tax structure
  - Historical tax revenues
- **Discuss options for alternate methods or changes to the cannabis taxation structure related to cultivation:**
  - Tax by Square Footage
  - Tax by Product Weight
  - Tax on Gross Sales Receipts
- **Schedule to develop and place new tax ordinance on the ballot**

# Background

- At April 2023 budget workshops, Board directed staff to return with options for alternate cannabis tax structure
- Board stated goals of:
  - Greater predictability in forecasting revenues
  - Provide more certainty to operators
  - Increased transparency
  - Maximize revenue without significant increase to current tax rates

# Background

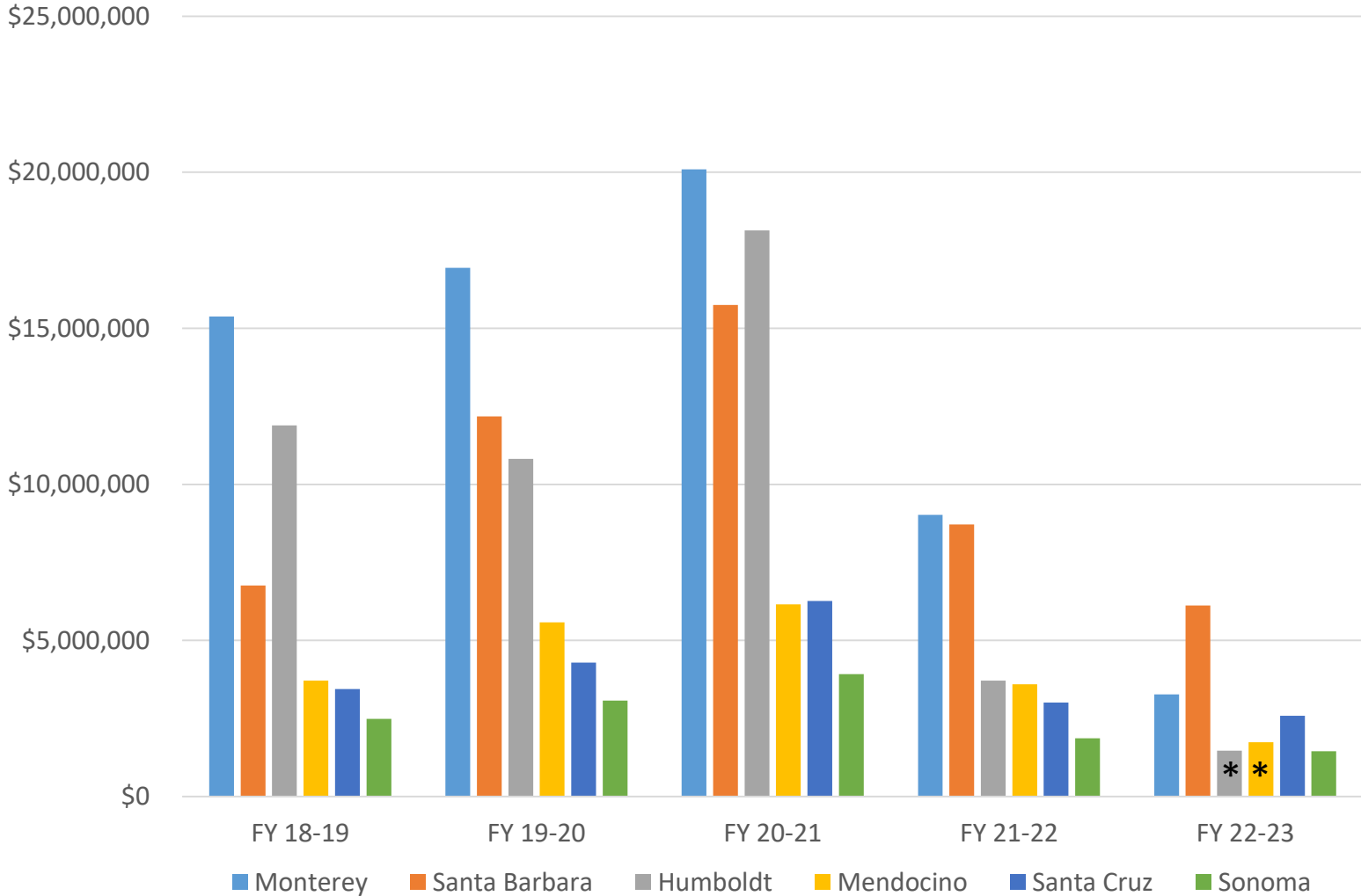
- **Current tax structure approved by voters in June 2018**
  - General tax on cannabis operations
  - Gross receipts of cannabis activities and products computed as follows:
    - Nursery: one percent of gross receipts; and
    - Distributor: one percent of gross receipts; and
    - Manufacturing: three percent of gross receipts; and
    - Cultivation: four percent of gross receipts; and
    - Retail: six percent of gross receipts; and
    - Microbusiness: six percent of gross receipts
- **County benefits from times when market is high**
- **Compliance challenges persist**

# Historical Tax Revenues

County (Tax model)	Total Revenue in millions
Monterey (SF)	\$64.7
Santa Barbara (GR)	\$49.5
Humboldt (SF)	\$46.0
Mendocino (GR)	\$20.8
Santa Cruz (GR)	\$19.6
Sonoma (SF)	\$12.8

Tax Model Definition  
 SF = square foot, GR = gross receipts

Annual Tax Revenue of Top Six Cultivation Counties



\*Revenues “to-date” as of June 2023

# Develop Tax Structure for Area by Square Foot

Goal	Ability to Attain Goal
Predictability of Revenues	+/-
Certainty for Operators	+
Increased Transparency	+/-
Maximize Revenue without Significant Increase	+/-

- Most common method of tax collection for cultivation in CA
- Sets different rates based on cultivation license type, i.e. Indoor/Mixed Light (greenhouse), Outdoor, Nursery
- Typically adjusted annually using an index such as Consumer Price Index (CPI) or by Board action
- Need to define taxable area
  - State licensed cultivation area
  - County permitted area (acreage held in acreage cap)
- Considerations for inactivity, Senate Bill 833 implementation, and crop loss
- Square foot rate calculations



Microsoft Excel  
Worksheet

# Develop Tax Structure by Weight of Cannabis Product

Goal	Ability to Attain Goal
Predictability of Revenues	-
Certainty for Operators	+/-
Increased Transparency	+/-
Maximize Revenue without Significant Increase	+/-

- Sets different rates based on cultivation “type,” i.e. cannabis flower, cannabis leaves, fresh cannabis plant
- Proportional tax structure; operators pay on product produced and transferred for sale
- Could be adjusted annually using an index such as Consumer Price Index (CPI) or by Board action
- Continues to rely on operator inputs/self-reporting
- Back up could be provided through State track-and-trace system (METRC), although inputs are not verified

# Maintain Current Tax Method (Gross Sales Receipts)

Goal	Ability to Attain Goal
Predictability of Revenues	+/-
Certainty for Operators	+/-
Increased Transparency	-
Maximize Revenue without Significant Increase	+

- Gross receipts structure is proportional; linked to revenue generated by the cultivator
- Does not require rate adjustments to account for market fluctuations
- Compliance challenges persist, but first round of audit findings are expected this year
- Program now has a substantial amount of data to inform pricing for compliance reviews
- Potential to minimize operator attrition during market lulls



# Summary

- The best way to establish/review tax structure is to consider program goals
- Original goals of the program may differ from what is important today
- Each option has its benefits and challenges
- Consulting with other taxing jurisdictions determined there is no “right way” however, there are lessons learned
- Whichever structure we use, staff will incorporate best practices from others’ and our experiences

# Potential November 2024 Ballot Measure

- Changing tax structure requires a ballot measure
- Four-fifths (4/5) vote required by Board of Supervisors to place new ordinance on the ballot
- General tax needs a simple majority of Santa Barbara County (unincorporated) voters to approve for passage
- Tentative Schedule
  - May 7<sup>th</sup> consider and approve options for new structure; direct staff to develop ballot language
  - June 18<sup>th</sup> First reading of ordinance
  - July 9<sup>th</sup> Second reading and request to place measure on ballot; ballot language must be final at this time (4/5 vote required)

# Recommended **Actions**

- a) Consider options for alternate methods or changes to the cannabis taxation structure related to cultivation:
    - i. Develop tax structure for cultivation area by square foot;
    - ii. Develop tax structure for cultivation by weight (pound or ounce) of cannabis product;
    - iii. Provide direction to staff to maintain current taxation method (gross sales receipts); or
    - iv. Provide other direction to staff on taxation methods;
  
  - b) Provide direction to staff to develop a ballot measure for cannabis taxation including creation of documents for the November 2024 General Election ballot as needed; and
  
  - c) Determine that pursuant to CEQA Guidelines section 15378(b)(5) the above actions are not a project subject to CEQA review because they are administrative activities that will not result in direct or indirect physical changes in the environment.
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