



**BOARD OF SUPERVISORS
AGENDA LETTER**

Agenda Number:

Clerk of the Board of Supervisors
105 E. Anapamu Street, Suite 407
Santa Barbara, CA 93101
(805) 568-2240

Department Name: County Executive Office
Department No.: 012
For Agenda Of: September 14, 2021
Placement: Departmental
Estimated Time: 20 minutes
Continued Item: No
If Yes, date from:
Vote Required: Majority

TO: Board of Supervisors

FROM: Department Director
Mona Miyasato, County Executive Officer
Jeff Frapwell, Assistant County Executive Officer
Brittany Heaton, Principal Analyst

DocuSigned by:
Mona Miyasato
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SUBJECT: California Cannabis Authority Membership

County Counsel Concurrence

As to form: Yes

Auditor-Controller Concurrence

As to form: Yes

Risk Management:

As to form: Yes

Recommended Actions:

That the Board of Supervisors:

- a) Adopt a resolution authorizing the County of Santa Barbara to:
 - i. Approve entering into the Joint Exercise of Powers Agreement, as amended, establishing the California Cannabis Authority;
 - ii. Authorize the Chair to execute the Joint Exercise of Powers Agreement on behalf of the County of Santa Barbara; and
 - iii. Appoint the County Executive Officer or their designee(s) to serve as the Authorized Representative and a member of the Authority’s Board of Directors and to appoint the County Executive Officer and Budget Director to serve as Alternate Authorized Representatives; and
- b) Find that the proposed actions are administrative activities of the County, which will not result in direct or indirect changes to the environment and therefore are not a “project” as defined for the purposes of the California Environmental Quality Act (CEQA) under State CEQA Guidelines Section 15378(b)(5).

Summary Text:

The California Cannabis Authority (CCA) is a Joint Powers Authority created by contract between counties with cannabis regulatory and/or taxing authority. The purpose of the organization is to

develop and manage a state-wide data platform that will gather, collect, and analyze information from a variety of data sources into one resource, to help local governments ensure cannabis regulatory compliance and also provide necessary information to financial institutions that wish to work with the cannabis industry. The County's membership provides the CCA with the ability to collect data from local cultivation sites, point of sales, as well as taxation and socioeconomic data. By combining these data points, member jurisdictions are provided with actionable data that can assist with enforcement, audits, and with revenue forecast.

The data provided by the CCA will also be useful for regulatory compliance efforts. Much of the data is anticipated to be "real time", so that County departments will have up to date information available when making enforcement decisions.

Background:

The California State Association of Counties (CSAC) and the CSAC Finance Corporation took a leadership role in the creation of the CCA. A stakeholder group was assembled by CSAC that included county supervisors and treasurer-tax collectors from various California counties engaged in cannabis permitting and taxation. This group met from late spring to early fall 2017 and assisted in development of the CCA Joint Exercise of Powers Agreement. Current member counties of the CCA include: Humboldt, Mendocino, Monterey, San Luis Obispo, Yolo, Inyo, and Lassen. The CCA uses consultant, Nationwide Compliance Specialists, Inc. (NCS) to collect, process, analyze, and aggregate cannabis permitting and taxation data from the State and from member jurisdictions. The CCA is funded by a fee developed by the JPA governing board, calculated for each entity, and dependent upon the total sales within the jurisdiction. This amount is commensurate with the amount of data generated, and therefore equitable to each member jurisdiction's cost to the JPA.

Staff is seeking additional information to ensure strict compliance with permit and business licensing requirements as well as reconciliation of tax reporting and payment. All state-issued annual and provisional licensees are required to use the California Cannabis Track-and-Trace (CCTT) system, also known as METRC, to record, track, and maintain information about their cannabis and cannabis-product inventories and activities. Originally, concurrent with the development of Chapter 50, County staff had discussions with the State regarding securing access to the information contained in METRC for State licenses issued within Santa Barbara County. The State initiated a pilot program and some jurisdictions were given access through approval of a Memorandum of Understanding (MOU). Despite early commitments by the State for the County to be able to participate in the pilot program, negotiations stalled in early 2021 and we do not currently have access to any of this information. While the State's data sharing program may ultimately still be a possibility in the future, the program is simply data sharing. Through membership in the California Cannabis Authority (CCA), Santa Barbara County will gain access to a sophisticated data analytics platform that takes the raw data from the CCTT-METRC system and packages it into consumable, helpful reports. Joining the JPA will strengthen the County's ability to monitor and enforce the cannabis regulatory structure by highlighting anomalies in the data reporting that staff can review, use to follow up with operators, and take action as needed.

The County contracted with KPMG to produce a short report on the cannabis revenue process. The report recommends becoming a member of the CCA, "to maximize the efficiency and effectiveness of the cannabis tax revenue collection process," and support compliance activities by county enforcement agencies. The CEO's Office currently has limited ability to forecast cannabis revenue due to a lack of transparency into countywide and industry-wide operations and trends. The benefit of CCA membership

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and access to the data platform will provide increased insight and transparency into licensee and operator data and processes to exchange leading practices with peer counties. The data and analytics will allow the CEO's Office to visualize industry trends, forecast cannabis related budget items accurately, and ensure operators are maintaining cannabis regulatory compliance. The data will also facilitate better visibility into validation of tax reporting to the County to help ensure operators are maintaining tax compliance.

Three of the CCA member agencies, San Luis Obispo, Yolo, and Monterey Counties are active users of the data platform offered through CCA membership. Staff spoke to representatives from each of those counties to gain an understanding of the benefits afforded by accessing the data platform. Monterey and San Luis Obispo County staff meet weekly with NCS to walk through the METRC data, identify anomalies, ask questions, and better understand the data that licensees report. All three counties utilize a Cannabis Compliance Task Force made up of staff from the various enforcement agencies to follow up on the data through site inspections, and direct correspondence. If membership is approved, CEO staff would work with departments to form a County Cannabis Compliance Task Force to meet regularly with NCS staff to further a robust, proactive compliance program.

Gaining access to the platform and the track and trace data requires that licensees supply an Application Programming Interface (API) key. Pursuant to County Code section 50-8.b.9 the CEO Cannabis Business License team will include a request for the API key from all business license applications as a condition of approval. Staff will also request that any existing state provisional license holders operating in a legal non-conforming status provide an API key. In addition, a forthcoming proposed ordinance amendment will codify the licensing requirements, including any requirements necessary to participate in the CCA and ongoing process improvements. Cannabis cultivation businesses will also need to submit a Monthly Transfers Report. The State's track and trace system does not record pricing information for cultivation wholesale. Licensees need to supplement data provided by the API with a monthly report which reconciles pricing, weight, and quantity information on all outbound transfers. The current streamlined monthly transfer report was developed as a compromise to get the detailed information needed but also not create a significant time burden for licensees. CCA staff recently worked with the industry on a new pilot method to gain pricing information that is simpler and less time-consuming (Attachment C). The method allows licensees to pre-populate the monthly report for products transferred directly from their METRC data. Once populated, the licensee simply enters a value for the contracted or expected price for the product at transfer and later updates the product transfer to reflect actual pricing upon receipt of payment.

Joint Exercise of Powers Agreement

Staff has proposed two minor amendments to the JPA to address clarify the scope and powers of the JPA. The attached Joint Exercise of Powers Agreement (Attachment B) highlights proposed language that the CCA Board will hear at their August 27th meeting and upon 30 days notice consider approval. Staff recommends execution of the JPA by the Chair once these amendments are approved by the CCA Board on September 24th, 2021.

Authority Representation

The Authority is governed by a Board of Directors. Each member county is entitled to participate and be represented by a designee on the JPA Board of Directors. Staff recommends that the Board appoint the County Executive Officer or their designee(s) to serve on the Board and two representatives, an Assistant CEO, and the Budget Director to serve as alternates.

Fiscal and Facilities Impacts:

Budgeted: Yes

The cost for Santa Barbara County to join CCA as a member is \$500,000 annually. Staff worked with CCA staff and board to negotiate this capped, fixed cost for Santa Barbara County membership that is significantly lower than the cost originally quoted based on their pricing algorithm. Given the volume of permits and licenses that will be issued over the course of the next 6-12 months, and the cannabis revenue that will be generated staff supports this investment. The cost is approximately 3% of projected revenue for the current fiscal year and using the data available through CCA membership has the potential to recoup this cost in taxes on possible oversights and under-reporting.

Attachments

Attachment A: Resolution

Attachment B: Joint Exercise Powers Agreement

Attachment C: CCA CSV User Manual

Attachment D: CCA Bylaws

Authored by:

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