



**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: October 8, 2024
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

DocuSigned by:

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Contacts: Brittany Odermann, Deputy CEO

SUBJECT: Update on Cannabis Taxation, Compliance, and Enforcement – Fourth Quarter
FY 2023-24

County Counsel Concurrence

As to form: Yes

Auditor-Controller Concurrence

As to form: NA

Risk Management

As to form: NA

Recommended Actions

That the Board of Supervisors:

- a) Receive and file an update on the status of cannabis tax collection, land use permitting, business licensing, and enforcement;
- b) Provide any other direction to staff regarding the County's cannabis program; and
- c) 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:

This item provides the Board and public an update for the fourth quarter of fiscal year 2023-24 (April 1, 2024, to June 30, 2024). This report includes a summary on the implementation of the County's cannabis regulations, tax receipts, land use permitting, business license activity, enforcement, and objectives for

the current fiscal year. Attachment A includes detailed reporting on these items including comparisons to prior quarters and past fiscal years.

Cannabis Taxes

Cannabis tax revenue totaled \$1.8 million for the fourth quarter reporting period of fiscal year 2023-24 (taxes collected as of July 31, 2024, for the period April 1 to June 30, 2024). Table 1 of Attachment A compares fourth quarter revenues for the last three fiscal years. Total fiscal year cannabis tax revenue is approximately \$5.8 million; this slightly exceeds the earlier \$5.7 million estimated actual. The FY 2023-24 adopted budget of \$7.5 million included \$1.5 million of revenue from retail sales that has not materialized due to delayed retail opening dates and lower-than-expected retail receipts for the two existing open locations. These budget projections were made in the spring of 2023 during budget development, and have since been reduced to reflect revenue retail sales that are consistent with current trends and updated opening dates in the current FY 2024-25 Adopted Budget.

Cannabis Tax Revenue Audits: Status update from the Treasurer- Tax Collector's Office

Over the past two years, the Treasurer-Tax Collector's office has worked diligently to enhance Cannabis Tax compliance. Each quarter, they send detailed statement analyses to operations, outlining the expected taxable transfer units for that period. When operations submit their reports, the Treasurer-Tax Collector's office meticulously reviews them, addressing any discrepancies. Their team focuses on correcting underreporting and discrepancies while ensuring that all operations report timely.

As mentioned in previous reports to the Board, HdL was contracted to perform audits on quarterly reports submitted to the County in accordance to Chapter 50A-8. During the audit process of the first two operators, HdL collected various financial documents. HdL carefully reviewed these documents, verifying figures and pricing accuracy.

HdL provided the two audit reports for the 2022-2023 fiscal year. They were reviewed and approved by the Treasurer-Tax Collector's office. To date, HdL has finalized one audit with the operator and is working to finalize the second. HdL intends to conduct six cultivation audits this fiscal year to continue to complement the tax compliance work in the Treasurer-Tax Collector's Office. Fiscal year 2024-25 currently has a budget of \$132k for HdL to continue cannabis auditing services. The Treasurer-Tax Collector's office treats all audit documents and reports as confidential.

As staff develop the cannabis licensing program budget for FY 2025-26, business license fees for compliance are being reviewed and costs for audit services will be evaluated as part of that review.

Cannabis Compliance

Land Use Entitlements

The County, via the Planning and Development Department (P&D) has approved approximately 171 acres of cultivation in the Carpinteria Agricultural Overlay Area and 1,761 acres of cultivation in the remaining unincorporated area. Table 3 of Attachment A lists the precise acreage approved compared to the total amount of proposed acreage submitted for permits and the total issued permit acreage. There are currently two active appeals to the County Planning Commission, including the Sugarhill Cannabis Cultivation Conditional Use Permit and the Island View Cannabis Cultivation Coastal Development Permit. There is currently one active appeal to the Board of Supervisors for Sierra Botanicals. Table 4 of Attachment A summarizes the project applications that are currently on appeal to the Planning Commission and the Board. There have been several actions taken on existing approved cannabis entitlements. No new entitlements were issued for new cannabis operations.

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Acreage Caps

The Board adopted two cultivation acreage caps: 1) in the Carpinteria Agricultural Overlay District (capped at 186 acres), and 2) the remaining unincorporated area (capped at 1,575 acres.) The County Executive Office tracks acreage of eligible cannabis operations against the cap on an Eligibility List. For a commercial cannabis operator to be placed on the Eligibility List the operator must: 1) have an approved land use entitlement; 2) request placement on the list by submitting the Eligibility List Placement Request Form to the County Executive Office; 3) submit a complete cannabis business license application within 30 days of land use entitlement issuance that has been accepted and determined to be complete by the County Executive Office; and 4) pay all required cannabis business licensing fees/deposits. A commercial cannabis operation on the Eligibility List remains on the list while permit appeals are processed, however, their spot is nontransferable and subject to annually renewing their interest to remain on the list. Table 3 of Attachment A highlights how many acres of cannabis cultivation are currently in the land use entitlement process and how many acres have been permitted. The Acreage Cap Eligibility List by area can be found at [Cultivation Cap & Eligible Business License Applicants Lists | Santa Barbara County, CA - Official Website \(countyofsb.org\)](https://www.countyofsb.org/Cultivation-Cap-Eligible-Business-License-Applicants-Lists-Santa-Barbara-County-CA-Official-Website-countyofsb.org)

County Business Licensing

There are 78 cannabis business licenses that have been issued or are in the renewal process. 26 licenses were issued in fiscal year 2023-24 Q4. Of this number, 23 were renewal licenses reflecting 12 operations and 3 were new licenses reflective of one newly licensed operation. The program has 45 total operators representing 78 total cannabis business licenses. Additionally, 3 initial applicants withdrew, and 3 licensed operators surrendered their license.

Retail Dispensaries

The County approved six dispensary retail locations through a competitive application process. The Farmacy Isla Vista and The Farmacy Santa Ynez are both in operation. Four of the six locations are in various stages of the building permit process. Once the applicants finalize all Planning and Development build-out requirements, the Cannabis Business Licensing process begins. At this time, Chapter 50 Section 50-9 is applicable and gives the CEO's office the authority to ensure timelines from application submission to business license issuance are adhered to. If the applicant fails to provide the requested information in the established timeframe, the application will be deemed abandoned (50-9(b)(2)). There is no explicit timeline in Chapter 50, however, the CEO's office establishes timelines as needed. If abandoned, the CEO's office will extend an invitation to the 2nd runner-up for the applicable Community Plan Area to apply for a land use entitlement followed by a cannabis business license.

Projects are delayed for a number of reasons; retail storefront open dates may be further constrained by processing times to obtain local cannabis business licenses followed by state licenses. Our team is working closely with the applicants to minimize delays.

Cannabis Enforcement

Over the last quarter, the Santa Barbara County Sheriff completed five enforcement actions against illegal cannabis activities, additional information is provided in Attachment A, Table 8.

Objectives for the Upcoming Quarters

1. Finalize implementation of State Audit general recommendations.

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2. Review and propose Chapter 50 ordinance amendment(s) to address outstanding issues including: aligning live scan and criminal background checks with DCC State regulations.
3. Explore development of a fee schedule to issue citations to address compliance code violations.
4. Continue the financial monitoring and tax audit process.
5. Continue to improve the Business License application process by 1) shortening application submission to license renewal timelines 2) improving internal response times, and 3) working with operators to ensure timely renewals.

Attachments

Attachment A: Cannabis Taxation, Compliance, and Enforcement, 4th Quarter Report FY 2023-24

Authored by:

Carmela Beck, Cannabis Program Manager