

COMMERCIAL CANNABIS BUSINESS TAX

JULY 10, 2018



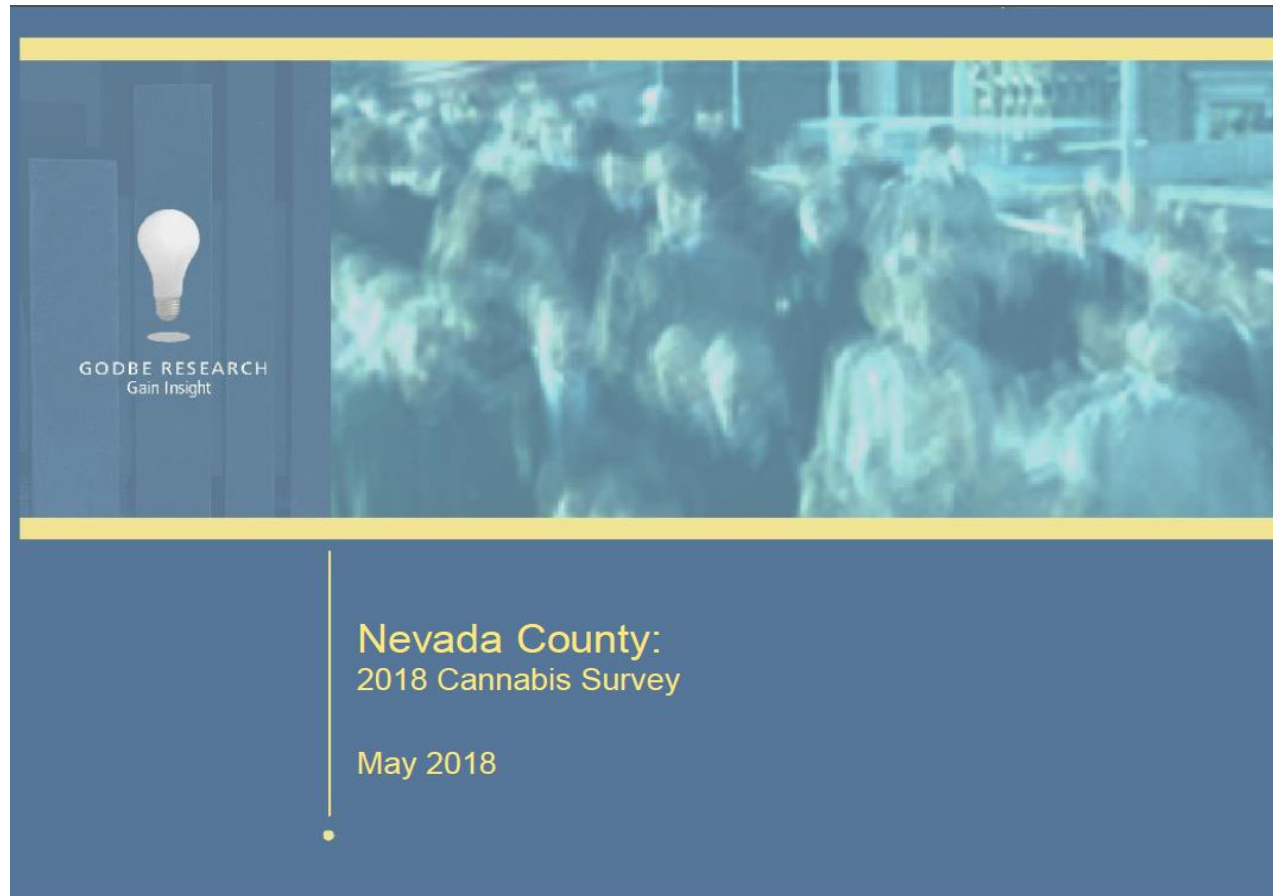
TIMELINE

October 2015	Medical Cannabis Regulation & Safety Act (MCRSA)
November 2016	Proposition 64 Passes
February 2018	Board priorities reflect a cannabis revenue measure
March 2018	Contract adopted with Lew Edwards Group and Godbe Research for Cannabis Tax Measure Survey
May 2018	Survey conducted
June – July 2018	Drafting of Ordinance and ballot language presented today for Board adoption
August 10, 2018	Deadline to place measure on ballot
November 6, 2018	Placement on November ballot if adopted by BOS

CANNABIS TAX MEASURES

- Prop 64 allows City & County agencies to authorize taxes on commercial cannabis businesses
- Government Code provides that a legislative body cannot impose a general tax without an ordinance passed by 2/3 vote of the legislative body and tax submitted to the electorate of the local government and approved by a majority vote
- Although a permanent ordinance is not in place it is imperative to get the measure on the November ballot so that the tax structure is in place. Our next opportunity for a measure placement would not be until 2020.
- To date, 15 Counties and 60+ cities have voter approved taxes on cannabis
- Several more preparing for ballot measures on November ballot
- Measures vary in their rates and structure and no one size fits all
- Community survey completed for tax measure viability- 60%+ approval

SURVEY RESULTS



The graphic features a lightbulb icon above the text "GODBE RESEARCH Gain Insight". To the right is a photograph of a crowd of people. Below the photograph, the title "Nevada County: 2018 Cannabis Survey" and the date "May 2018" are displayed. A vertical line and a small dot are positioned to the left of the text.

GODBE RESEARCH
Gain Insight

Nevada County:
2018 Cannabis Survey

May 2018

Nevada County commissioned Godbe Research to conduct a survey of local voters with the following research objectives:

- Gauge the public's perceptions on overall quality of life in Nevada County;
- Gauge satisfaction with the performance of County organizations;
- Assess support for medical and recreational cannabis business in the County;
- Assess potential interest in a hypothetical cannabis business tax to maintain and improve essential services with funding that cannot be taken by the State;
- Identify respondent priorities;
- Use demographic and/or voter behavioral characteristics to validate the representativeness of the sample.

Methodology Overview

- Data Collection Landline (86), text to online (379), and email to online (236) interviewing
- Universe 52,027 likely November 2018 voters in Nevada County
- Fielding Dates May 7 through May 13, 2018
- Interview Length 18 minutes
- Sample Size 701
- Margin of Error $\pm 3.68\%$



GODBE RESEARCH
Gain Insight

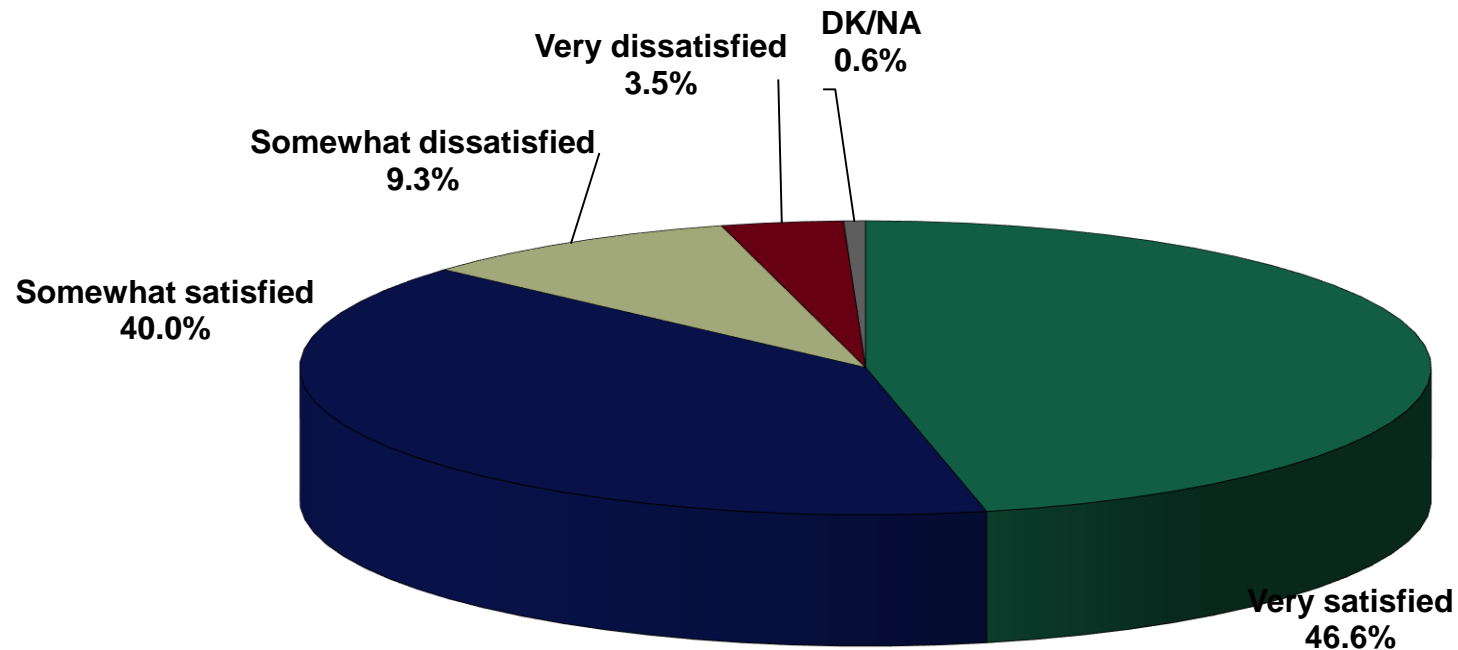


Key Findings

- A Nevada County locally-controlled cannabis business tax measure is potentially viable in November 2018, with up to 61% potentially supporting the measure.
- Over 86% say they are somewhat/very satisfied with Nevada County quality of life.
- Majorities support both medical and recreational cannabis business in Nevada County.
- Top respondent priorities for additional local funding:
 - Local revenue for essential County services
 - Enhancing crime prevention and investigation
 - Enforcing cannabis licensing, operation and public safety and environmental regulations

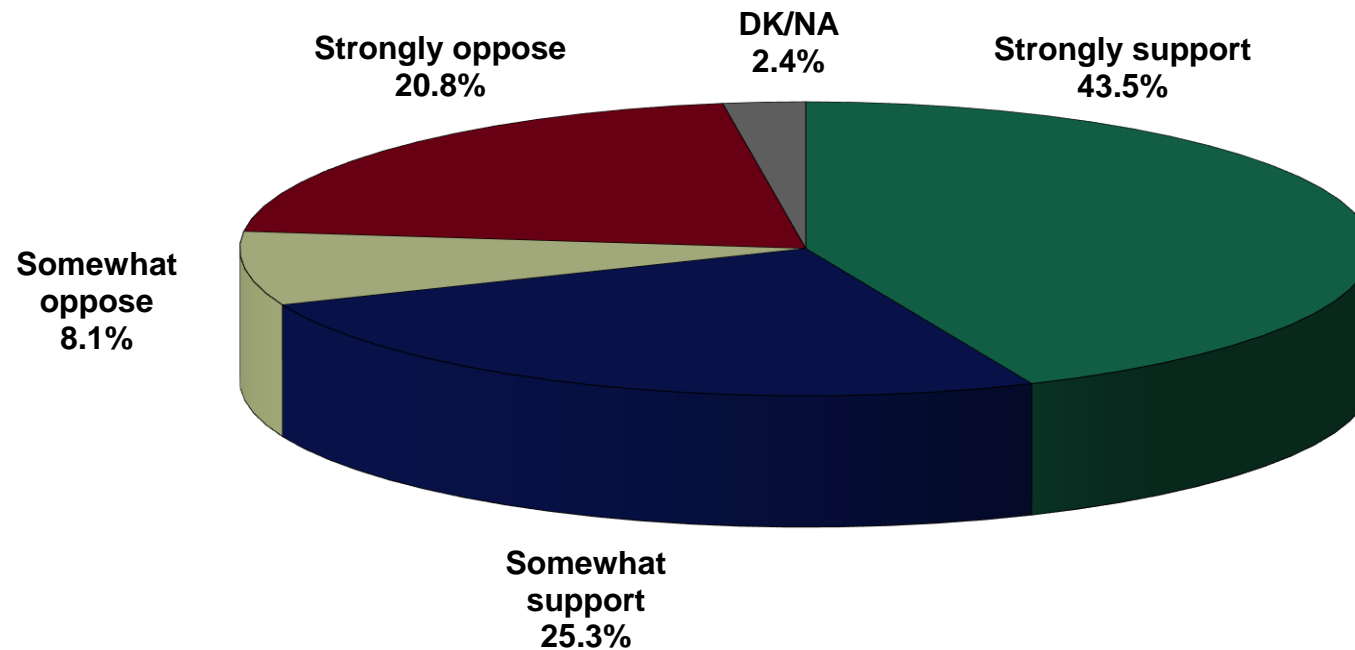
Satisfaction with Overall Quality of Life in Nevada County (n=701)

Total Satisfied	86.6%
Total Dissatisfied	12.8%
Ratio Sat to Dissat	6.8 to 1



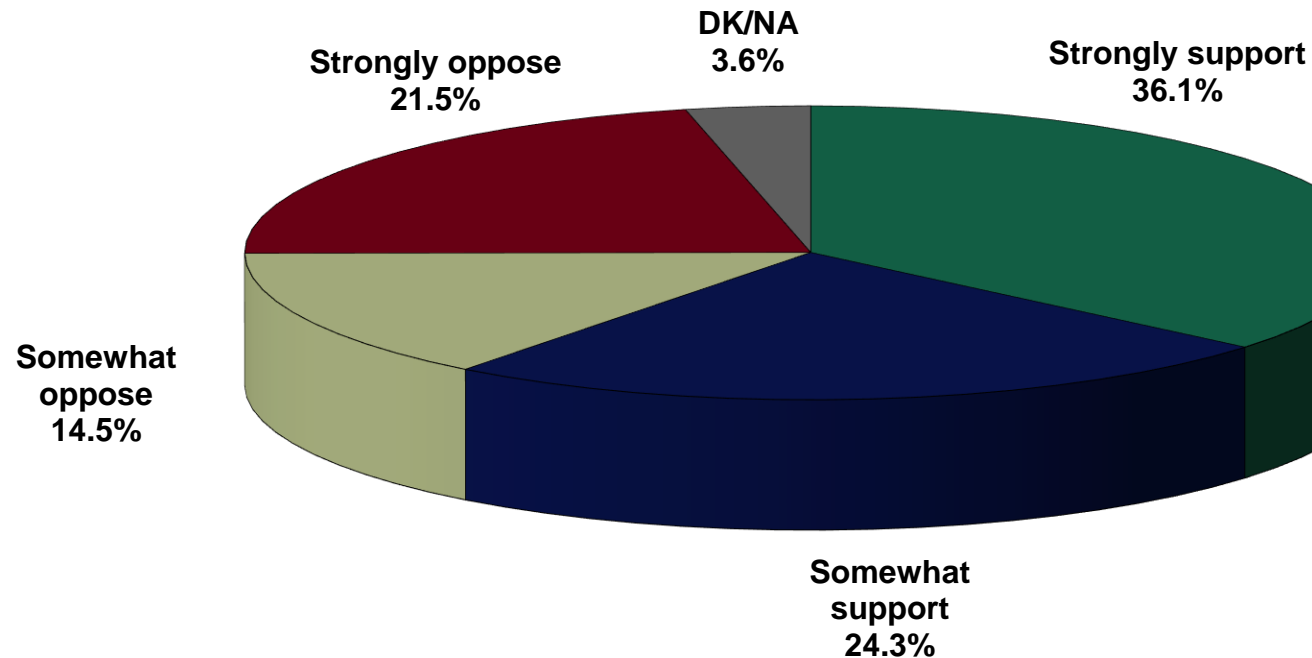
Support for Medical Cannabis Business in Nevada County Sample A

Total Support	68.8%
Total Oppose	28.9%

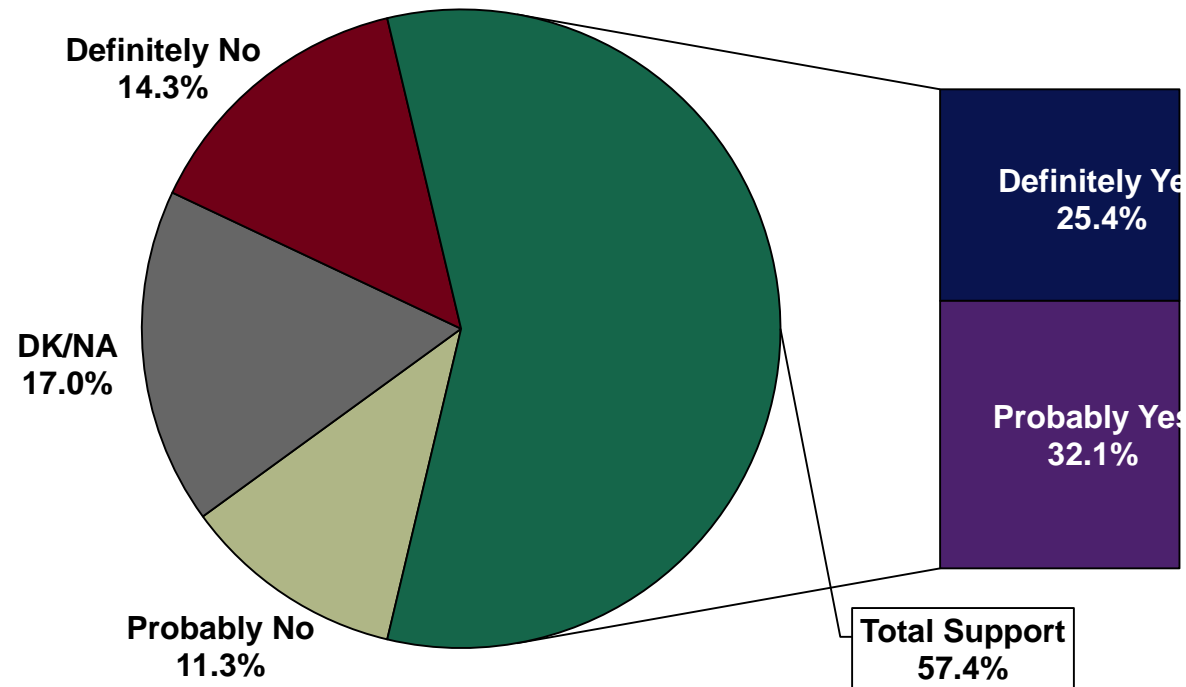


Support for Recreational Cannabis Business in Nevada County Sample B

Total Support	60.4%
Total Oppose	36.0%



Initial Reaction to a Hypothetical Cannabis Business Measure (n=701)



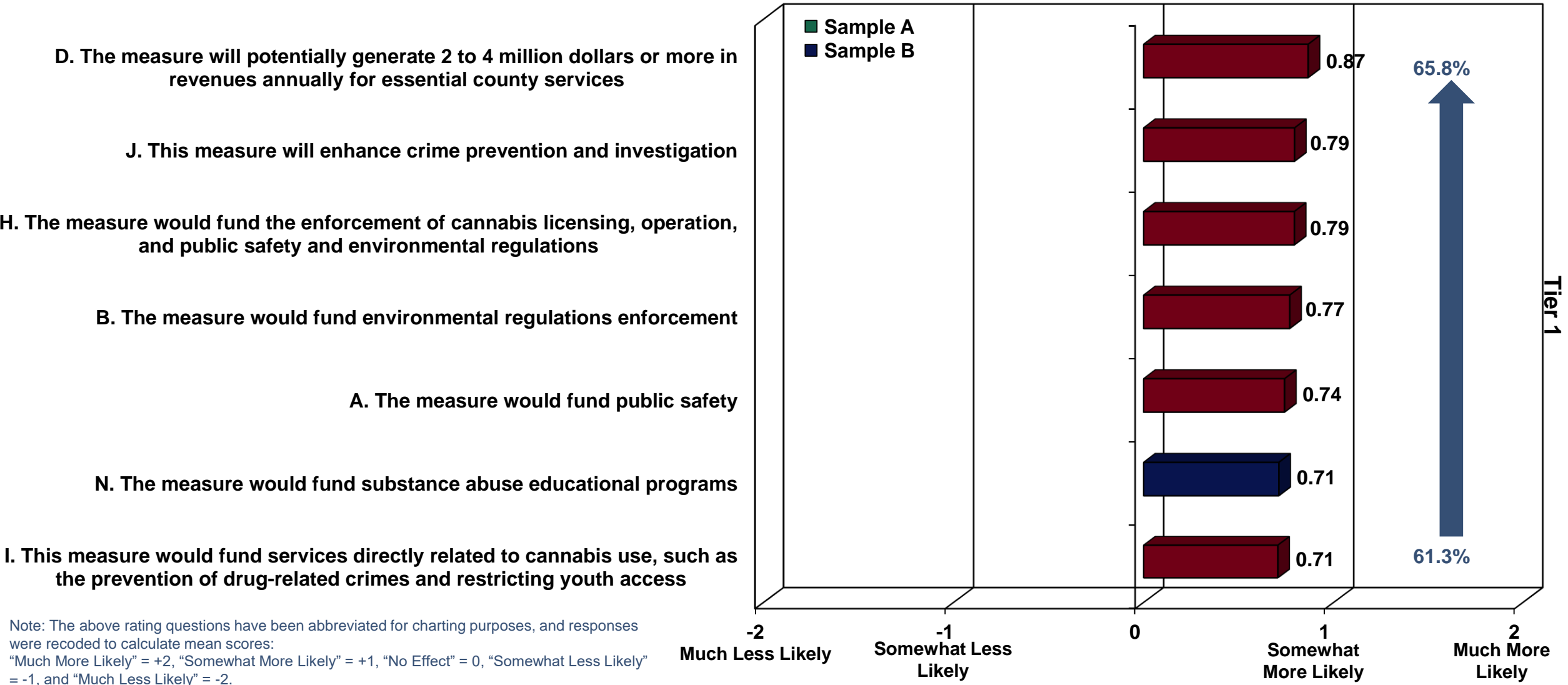
To maintain and improve essential services including

- public safety,
- environmental regulations enforcement,
- neighborhood protection,
- youth cannabis education, and
- unrestricted general revenue purposes,

shall the measure establishing cannabis business tax rates not to exceed \$10 per square-foot or \$8 per ounce on cultivation and/or up to 10% of gross receipts for all cannabis businesses in unincorporated Nevada County, generating an estimated \$2 to 4 million dollars annually, unless or until repealed, with financial audits and no money for the state, be adopted?

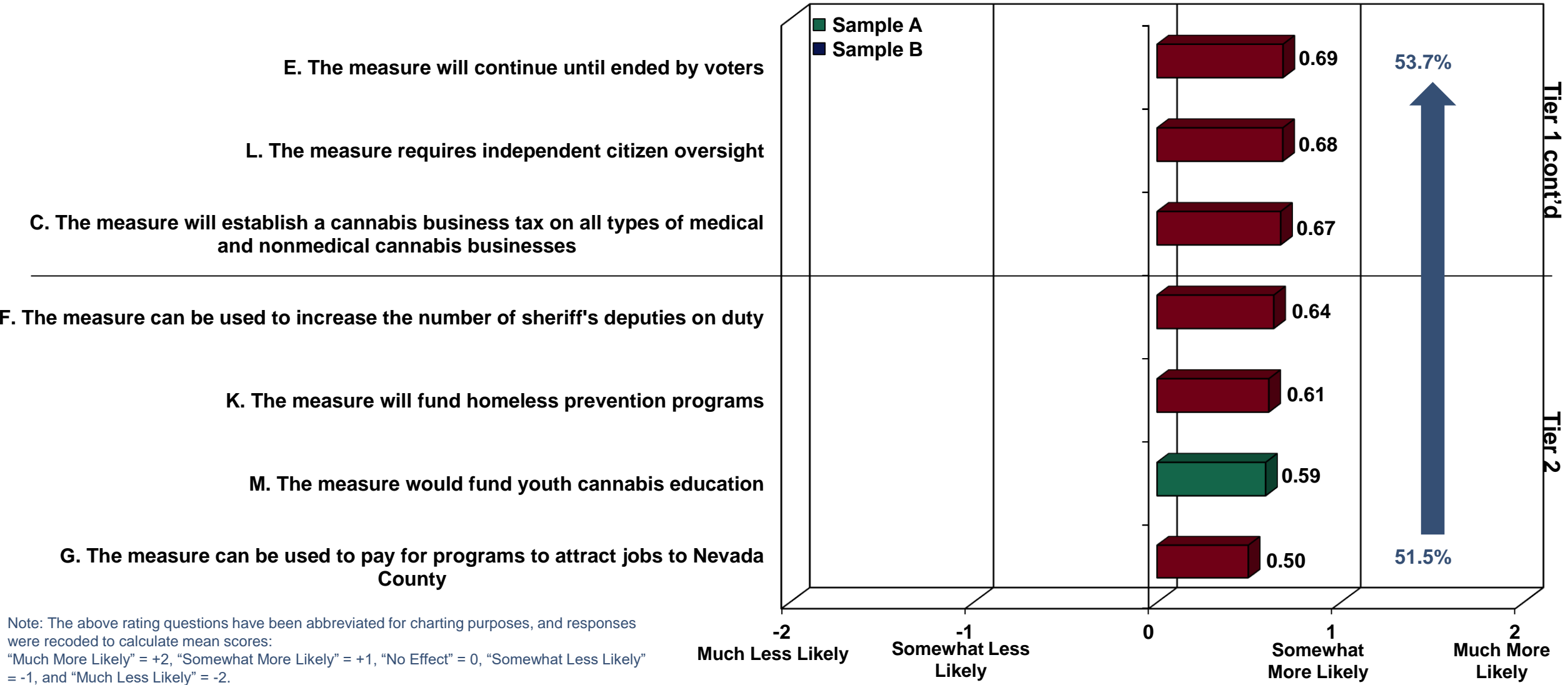
Resident Priorities for Essential Services Funding I

(n=701)



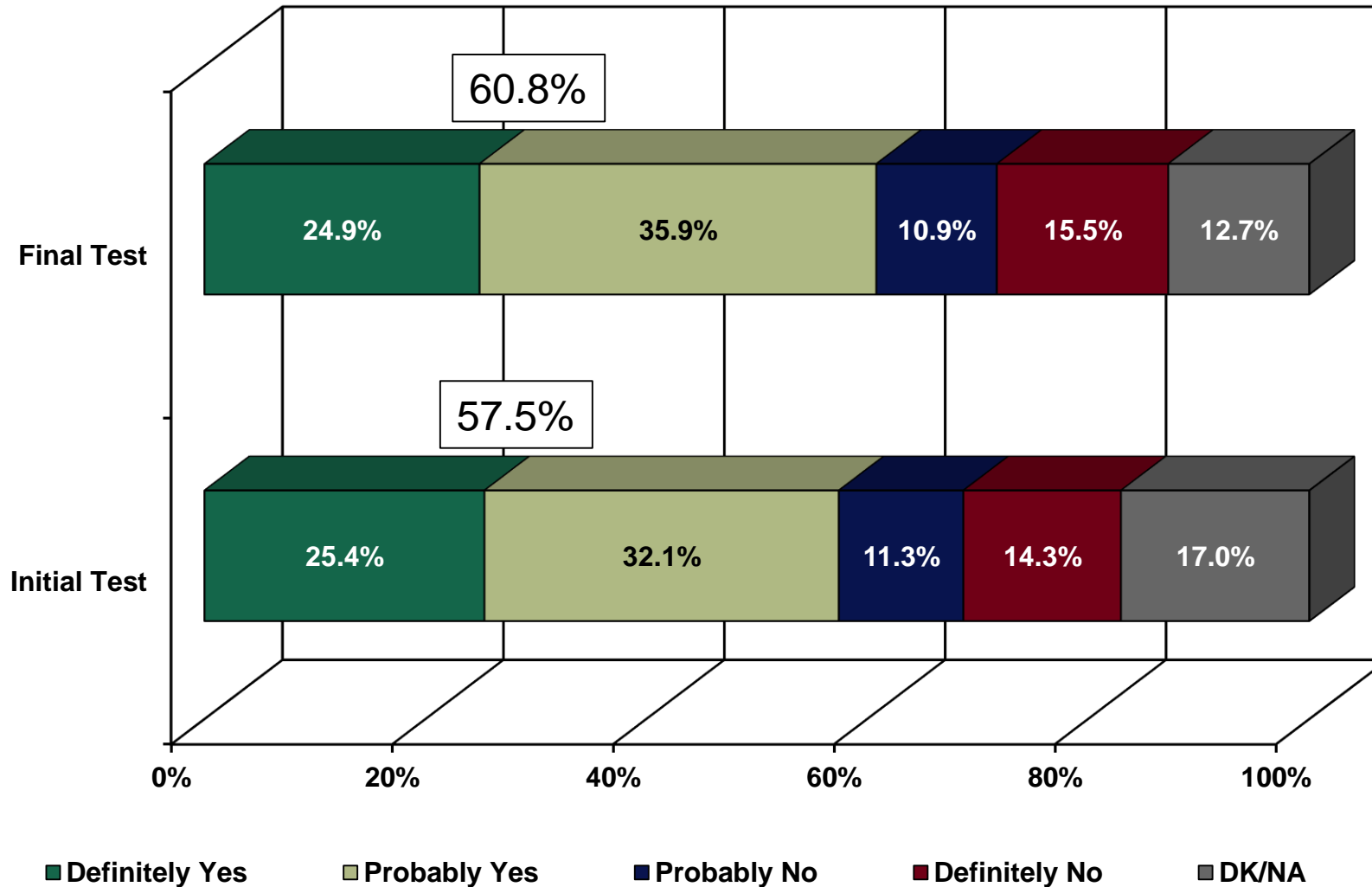
Resident Priorities for Essential Services Funding II

(n=701)



Reaction to Hypothetical Cannabis Business Measure After Hearing More Information

(n=701)



To maintain and improve essential services including

- public safety,
- environmental regulations enforcement,
- neighborhood protection,
- youth cannabis education, and
- unrestricted general revenue purposes,

shall the measure establishing cannabis business tax rates not to exceed \$10 per square-foot or \$8 per ounce on cultivation and/or up to 10% of gross receipts for all cannabis businesses in unincorporated Nevada County, generating an estimated \$2 to 4 million dollars annually, unless or until repealed, with financial audits and no money for the state, be adopted?



GODBE RESEARCH
Gain Insight



www.godberesearch.com

California and Corporate Offices
1575 Bayshore Highway, Suite 102
Burlingame, CA 94010

Nevada Office
59 Damonte Ranch Parkway, Suite B309
Reno, NV 89521

Pacific Northwest Office
601 108th Avenue NE, Suite 1900
Bellevue, WA 98004

WHY A CANNABIS BUSINESS TAX?

- With the legalization of cannabis comes known and potential unknown impacts on local communities. A cannabis business tax will help mitigate the costs of:
 - Increased demands on code and law enforcement for crime prevention and neighborhood protection
 - Environmental Regulation and Enforcements
 - Collection of taxes imposed and enforcement of illegal businesses
 - Increased need for Youth Cannabis Education
 - Impacts on Health & Human Services and Public Health
 - Local non-cannabis related businesses are currently taxed on the unsecured tax roll. Adopting a cannabis business tax allows for equitable treatment of these business entities.

GOALS

County Goals

- Generate sufficient revenue to cover known and unknown impacts of cannabis legalization to Protect the General Fund.
- Establish Low to moderate taxation to allow cannabis industry to become established and prevent the increase of black or gray markets
- Develop a tax that is simple to administer and easy to understand
- Allow flexibility in Ordinance to change tax rate and structure to adapt to industry needs and legislative changes, if needed
- Collaborate with California Cannabis Alliance JPA

Industry Goals

- Reduce barriers to entry into the legal market
- Low Introductory Tax rate with authorized adjustments not to exceed certain levels
- Streamlined tax collection – taxation after product enters the market
- Exemptions for compassionate use
- Flexibility in Administrative processes to allow those working towards compliance to be successful

OPTIONS REVIEWED

- General Tax versus Special Tax
- Type of Tax: gross receipts, gross weight, sq. footage
- Impacts: Service and Financial
- Rate and range of taxation
- Spending Priorities

TAX STRUCTURE OPTIONS

- Square Footage (cultivation only)
- Gross Weight
- Gross Receipts
- Pros and Cons for each type
- Lessons learned from other counties

TAX REVENUES – SPENDING PRIORITIES

- Annual County Expenses estimated to be over \$1M/yr. not to include one-time start up costs to date over \$560K
- 2.5% gross receipt estimates \$1.3-\$2.6M, assuming a lot of variables
 - Very difficult to predict and estimate
 - Estimating between 175-350 permittees for first year
- Revenue generated will first cover costs and then be considered through the County budget process for other uses
- Resolution lists high level spending priorities
- Initial rate be set for first 2.5 years

ORDINANCE RECOMMENDATIONS AND OVERVIEW

- The proposed Ordinance would:
 - Propose a general tax on commercial cannabis businesses, if approved by a majority of Nevada County voters. (G-V 8.2)
 - Recommend an initial tax rate of **2.5% of gross receipts for the first 2.5 years** and **not** to exceed 10% with set minimums based on square footage. (G-V 8.5.B.2)
 - Give BOS **flexibility** on rate increases and tax structure. (G-V 8.5.D.2.3)
 - Provide for automatic annual increases tied to a CPI. (G-V 8.5 D.2)
 - Provide BOS with discretion to exempt or accept certain classes of cannabis businesses such as distribution, manufacturing, testing, etc. (G-V 8.5.C)
 - Provide Tax Collector and Code Enforcement tools for enforcement, collection, and compliance. (G-V 8.6-8.14)

ORDINANCE RECOMMENDATIONS AND OVERVIEW

- The proposed Ordinance would:
 - Require cannabis businesses to register with the Tax Collector and report quarterly based on gross receipts. (G-V 8.6)
 - Impose penalties of 25% and interest at 1.5% per month. (G-V 8.11)
 - Exempt Personal Use and Compassion Care Cultivation from taxes imposed (G-V 8.15)
 - Provide for appeal process and process for failure to report (G-V 8.17)
 - Become effective upon approval of voters on November 6, 2018 with an operative date of January 1, 2019.

STATEWIDE COLLABORATION

California Cannabis Authority JPA

Purpose

The California Cannabis Authority (“CCA”) is a Joint Powers Authority created by contract between counties with cannabis regulatory or taxing authority. The purpose of the organization is to develop and manage a statewide data platform that will gather, collect, and analyze information from a myriad 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 Need for Data

The data platform will aggregate data from multiple sources including track and trace, point of sale, taxation and socioeconomic data. By combining all of these data points, local governments will be provided with targeted and defensible data, ensuring that what is being reported and what is occurring truly coincide.

RECOMMENDATION

- (1) Introduce and Waive Further Reading of an Ordinance Adding Article 8 to Chapter V of the Nevada County General Code establishing a Commercial Cannabis Business Tax in the unincorporated area of Nevada County
- (2) Adopt a Resolution Calling for an Election to Present to the Voters of the County A Proposed Ordinance Adding Article 8 to Chapter V to the Nevada County General Code Establishing a Commercial Cannabis Business Tax and Ordering Consolidation of Said Election with the Consolidated General Election on November 6, 2018

** If adopted by the BOS today and approved by the voters in November, we will bring back the Ordinance for final adoption in December 2018.

QUESTIONS



PENALTIES

25% initial delinquency + 25% after 30 days: Sonoma, Monterey, San Luis Obispo

25% initial delinquency + 10% after 30 days: Merced

10% initial delinquency + 25% after 30 days: Mendocino

10% initial delinquency + 10% after 30 days: Mono, Calaveras, Yolo, Humboldt, Inyo, San Benito, Santa Barbara, Solano

SQUARE FOOTAGE “REDUCTIONS” POTENTIAL LANGUAGE

"The tax statement may include a request for adjustment of the tax due to square footage authorized but not utilized for cultivation, and/or crop loss, along with evidence substantiating the square footage utilized and/or crop loss. The decision to prorate or adjust the tax will be made at the sole discretion of the County. A fee may be adopted by the Board of Supervisors and collected by the agency having jurisdiction or the Treasurer-Tax Collector to pay for the cost of investigating, verifying and opining on such request for adjustment of the tax."

GROSS WEIGHT DEFINITION TO ADD TO 8.4

“Gross Weight” as defined as the total weight of the cannabis, trimmed or untrimmed, without deduction for tare or waste. For purposes of this definition, the "gross weight" of dried cannabis, including but not limited to flowers, leaves, bud, or any combination thereof, shall be measured by dry-weight ounce. The "gross weight" of unprocessed fresh cannabis shall be measured by regular or "wet-weight" ounce.