

**February 7, 2018**

**Special Meeting**

**Item # 2a**

**Finance, CAO, County**

**Counsel, CDD**

**Workshop - Commercial**

**Cannabis Tax Ordinance**

# Commercial Cannabis Tax Ordinance

**Workshop**

**February 7, 2018**



# TODAY'S AGENDA

- Overview of Proposed Ordinance
- Review Fiscal Analysis
- Review Cumulative Tax Calculation
- Tax Policy Discussion
- Next Steps

# PROPOSED ORDINANCE – Cannabis Business Tax

5.55.040	Definitions		
5.55.050	Taxes	Initial Rates	BOS increase rates
		Maximum Rates	CPI adjustments
5.55.060	Quarterly reporting to Finance (Tax Administrator)		
5.55.100	Penalties and interest for late payment		
5.55.140	Administration		
5.55.150	Appeals		
5.55.190	Audits		
5.55.260	Disaster relief		

# FISCAL ANALYSIS: Cultivation

# OF PERMITS	\$0.50	\$1.00	\$1.50
1	\$21,780	\$43,560	\$65,340
3	\$65,340	\$130,680	\$196,020
5	\$108,900	\$217,800	\$326,700

## FISCAL ANALYSIS: Manufacturing

# OF PERMITS	2.5%	3.0%	4.0%
1	\$37,500	\$45,000	\$60,000
2	\$75,000	\$90,000	\$120,000
3	\$112,500	\$112,500	\$180,000

# FISCAL ANALYSIS: Retailers

# OF PERMITS	4.0%	5.0%	6.0%
0	\$0	\$0	\$0
1	\$40,000	\$50,000	\$60,000
2	\$80,000	\$100,000	\$120,000

## FISCAL ANALYSIS: Combined

Maximum # OF PERMITS	Conservative	Aggressive	Very Aggressive
8	\$142,840	\$233,180	\$331,020
9	\$250,340	\$373,180	\$511,020
14	\$401,400	\$600,300	\$821,700



# REVIEW CUMULATIVE TAX

*See Cumulative Cannabis Tax Handout*

## TAX POLICY QUESTIONS

- General tax vs special tax
- Countywide vs Unincorporated
- Canopy tax or Gross Receipts tax for Cultivators
- Tax Rate Structure

## CULTIVATION: Canopy Tax

- Square footage based on approved permit
  - Reduction for unused square footage, partial year
  - Relief for Disaster event
  - Deferred payment to match cash flow associated with harvest
- Predictable, stable revenue stream for financing on-going County costs
- Regressive until break-even point reached
- Lower tax proceeds than gross receipts tax

## CULTIVATION: Gross Receipts Tax

- Tax on Revenue
- Volatile revenue stream to County subject to economic changes
- Uneven cash flow to County throughout fiscal year
- Progressive – Every dollar earned generates tax liability
- Higher tax proceeds than gross receipts tax

## RATE OF TAX

- High enough to generate proceeds to offset costs
- Low enough to avoid over-taxing and ensure sustainability
- Match tax rates with neighboring jurisdictions
- Encourage licenses in short supply
- Flexibility options
  - BOS increase rate
  - Index for inflation
  - Minimum and Maximum rates

## PROPOSED INITIAL RATES

LICENSE TYPE	RATE
Cultivator: Indoor, artificial lighting	\$2.00 SF
Cultivator: Indoor, mix lighting	\$1.50 SF
Cultivator: Outdoor	\$0.50 SF
Cultivator: Nursery	\$0.50 SF
Testing Laboratory	1% GR
Retailer	4% GR
Distribution	2% GR
Manufacturing	2% GR

## NEXT STEPS

- Update ordinance based on Board direction
- Schedule Introduction and first reading (FEB 20)
- Schedule adoption (MAR 6)
- Approved ordinance to Clerk (MAR 9)
- Continue finalizing regulatory framework
- Tax measure appears on June 5<sup>th</sup> ballot

<b>Cumulative Cannabis Taxes</b>			
<b>Category</b>	<b>Amount</b>	<b>Increase</b>	<b>Cumulative Price</b>
<b>Producer Price</b>	\$800	\$800	\$800
<b>State Cultivation Tax</b>	\$9.25/oz	\$148	\$948
<b>Local Tax</b>	1.00%	\$8	\$956
<b>Batch Testing</b>	\$50/lb, + 0.50%	\$55	\$1,011
<b>Wholesale Price w/ Taxes</b>		\$1,011	
<b>Total Tax at Wholesale</b>		\$211	
<b>Tax as %</b>		26.38%	
<b>Manufacturer Markup</b>	20.00%	\$202	\$1,213
<b>Local Tax</b>	2.50%	\$30	\$1,244
<b>Total Manufacturer Price</b>		\$1,244	
<b>Total Taxes at Manufacturer</b>		\$241	
<b>Total Tax as %</b>		19.41%	
<b>Distributor Markup</b>	30.00%	\$373	\$1,617
<b>Local Tax</b>	2.00%	\$32	\$1,649
<b>Total Distributor Price</b>		\$1,649	
<b>Total Taxes at Distributor</b>		\$274	
<b>Total Tax as %</b>		16.60%	
<b>Retailer Markup</b>	100.00%	\$1,649	\$3,298
<b>Local Tax</b>	4.00%	\$132	\$3,430
<b>State Excise Tax</b>	15.00%	\$495	\$3,924
<b>Total Retailer Price</b>		\$3,924	
<b>Total Taxes at Retail</b>		\$900	
<b>Total Tax as %</b>		22.94%	
<b>CA Sales Tax</b>	6.25%	\$245	\$4,170
<b>Local Sales Tax</b>	1.00%	\$39	\$4,209
<b>Total Taxes at Retail</b>		<b>\$1,185</b>	
<b>Total Tax as %</b>		<b>28.15%</b>	
<b>Total Local Tax</b>		<b>5.75%</b>	<b>\$241.82</b>



<b>Cumulative Cannabis Taxes (Maximum Rates)</b>			
<b>Category</b>	<b>Amount</b>	<b>Increase</b>	<b>Cumulative Price</b>
Producer Price	\$800	\$800	\$800
State Cultivation Tax	\$9.25/oz	\$148	\$948
Local Tax	1.00%	\$8	\$956
Batch Testing	\$50/lb, + 0.50%	\$55	\$1,011
<b>Wholesale Price w/ Taxes</b>		\$1,011	
<b>Total Tax at Wholesale</b>		\$211	
<b>Tax as %</b>		26.38%	
Manufacturer Markup	20.00%	\$202	\$1,213
Local Tax	4.00%	\$49	\$1,262
<b>Total Manufacturer Price</b>		\$1,262	
<b>Total Taxes at Manufacturer</b>		\$260	
<b>Total Tax as %</b>		20.57%	
Distributor Markup	30.00%	\$379	\$1,640
Local Tax	3.00%	\$49	\$1,689
<b>Total Distributor Price</b>		\$1,689	
<b>Total Taxes at Distributor</b>		\$309	
<b>Total Tax as %</b>		18.27%	
Retailer Markup	100.00%	\$1,689	\$3,379
Local Tax	6.00%	\$203	\$3,582
State Excise Tax	15.00%	\$507	\$4,088
<b>Total Retailer Price</b>		\$4,088	
<b>Total Taxes at Retail</b>		\$1,018	
<b>Total Tax as %</b>		24.91%	
CA Sales Tax	6.25%	\$256	\$4,344
Local Sales Tax	1.00%	\$41	\$4,385
<b>Total Taxes at Retail</b>		<b>\$1,315</b>	
<b>Total Tax as %</b>		<b>29.98%</b>	
<b>Total Local Tax</b>		<b>7.97%</b>	<b>\$349.35</b>

Mammoth Lakes Tax Analysis

2/6/2018

<u>Cultivation Permits</u>		<u>Up to 5</u>		Tax Scenarios		
	Total Sq Ft		Total Sq Ft	\$0.50	\$1	\$1.50
Scenario 1	43560	1	43560	\$21,780	\$43,560	\$65,340
Scenario 2	43560	3	130680	\$65,340	\$130,680	\$196,020
Scenario 3	43560	5	217800	\$108,900	\$217,800	\$326,700
<u>Delivery Permits</u>		<u>Up to 0</u>		Tax Scenarios		
	Gross Receipts		Total GR	4%	5%	6%
Scenario 1	\$0	0	\$0	\$0	\$0	\$0
Scenario 2	\$0	0	\$0	\$0	\$0	\$0
Scenario 3	\$0	0	\$0	\$0	\$0	\$0
<u>Manufacturing Permits</u>		<u>Up to 3</u>		Tax Scenarios		
	Gross Receipts		Total GR	2.5%	3%	4%
Scenario 1	\$1,500,000	1	\$1,500,000	\$37,500	\$45,000	\$60,000
Scenario 2	\$1,500,000	2	\$3,000,000	\$75,000	\$90,000	\$120,000
Scenario 3	\$1,500,000	3	\$4,500,000	\$112,500	\$135,000	\$180,000
<u>Retailer Permits</u>		<u>Up to 2</u>		Tax Scenarios		
	Gross Receipts		Total GR	4%	5%	6%
Scenario 1	\$1,000,000	0	\$0	\$0	\$0	\$0
Scenario 2	\$1,000,000	1	\$1,000,000	\$40,000	\$50,000	\$60,000
Scenario 3	\$1,000,000	2	\$2,000,000	\$80,000	\$100,000	\$120,000
<u>Distribution Permits</u>		<u>Up to 3</u>		Tax Scenarios		
	Gross Receipts		Total GR	2%	3%	4%
Scenario 1	\$1,500,000	1	\$1,500,000	\$30,000	\$45,000	\$60,000
Scenario 2	\$1,500,000	2	\$3,000,000	\$60,000	\$90,000	\$120,000
Scenario 3	\$1,500,000	3	\$4,500,000	\$90,000	\$135,000	\$180,000
<u>Testing Lab Permits</u>		<u>Up to 1</u>		Tax Scenarios		
	Gross Receipts		Total GR	1.00%	1.25%	1.50%
Scenario 1	\$1,000,000	1	\$1,000,000	\$10,000	\$12,500	\$15,000
Scenario 2	\$1,000,000	1	\$1,000,000	\$10,000	\$12,500	\$15,000
Scenario 3	\$1,000,000	1	\$1,000,000	\$10,000	\$12,500	\$15,000
				<u>Max Permits</u>	Total of 14	
					Conservative	\$401,400
					Aggressive	\$600,300
					Very Aggressive	\$821,700
				<u>Mid Permits</u>	Total of 9	
					Conservative	\$250,340
					Aggressive	\$373,180
					Very Aggressive	\$511,020
				<u>Min Permits</u>	Total of 8	
					Conservative	\$142,840
					Aggressive	\$233,180
					Very Aggressive	\$331,020