



**Delivering Revenue, Insight
and Efficiency to Local Government**

Fiscal Analysis of the Commercial Cannabis Industry

**Prepared for
the
City of San Pablo**

May 3, 2023

Table of Contents

I.	Introduction	Page 3
II.	The Cannabis Industry in the East Bay Region	Page 6
III.	Common Cannabis Tax Rates	Page 9
IV.	Cannabis Retailers	Page 11
V.	Cannabis Manufacturers	Page 15
VI.	Cannabis Distributors	Page 17
VII.	Cannabis Cultivation	Page 18
VIII.	Cannabis Testing Laboratories	Page 19
IX.	Appendix	Page 20
	A. Legal and Regulatory Background for California	Page 21
	B. State Tax Considerations	Page 24
	C. General Economic Impacts	Page 26
	D. Fiscal Impacts and Fees	Page 28
	E. References	Page 31

I. Introduction

The City of San Pablo currently prohibits the establishment of any commercial cannabis businesses. Section 17.62.130 Cannabis Facilities, Delivery and Cultivation prohibits the establishment, operation, and location of commercial cannabis facilities, delivery, and cultivation in the City of San Pablo. Section 17.34 of the San Pablo Municipal Code specifically prohibits commercial cannabis facilities and activities, cannabis delivery and outdoor cannabis cultivation in all neighborhood commercial (NC), regional commercial (CR), commercial mixed use (CMU) and industrial mixed use (IMU) zones.

The City is now considering whether or not to remove this prohibition to allow commercial cannabis businesses within the City limits. This consideration is driven in part by a desire to diversify the City's revenues through imposition of a cannabis business tax. The City has a Municipal Services Agreement with the San Pablo Lytton Casino that provides approximately \$34 million in revenue to the City, accounting for some 60% of the City's general fund revenue¹. While a cannabis business tax would not be expected to generate nearly such levels of revenue, it could potentially help offset any declines or variances in the revenues received from the casino or other sources.

The City is also aware that there are currently a number of licensed cannabis retailers located in the surrounding city of Richmond and the nearby unincorporated area. These retailers are already providing access to cannabis for San Pablo residents through both walk-in sales and delivery, so that the current prohibition is unlikely to be an effective deterrent to the possession or use of cannabis within the City. It is assumed that sales of cannabis to the City's residents are already happening, but any related revenues are going to other jurisdictions.

To inform this consideration, the City has requested that HdL Companies provide a fiscal analysis of the existing cannabis industry in the San Pablo area and the East Bay Region to estimate the number and types of businesses that may choose to locate within the City, should they be allowed, and the amount of revenues that might reasonably be expected should the City's voters approve a cannabis business tax.

Legalization and regulation of commercial cannabis has exposed this industry to competitive free-market forces from which it was previously shielded due to prohibition. Licensing, permitting, and regulatory costs, combined with State and local taxes, have added significantly to the operational costs of commercial cannabis businesses. The net effect of these forces is that wholesale prices have dropped significantly at the same time that regulatory costs are climbing. High tax rates may have been acceptable to the industry when it enjoyed high profit margins and few regulatory costs, but those same rates become prohibitive for what is now one of the most highly regulated, and most competitive, industries in the State.

Discussion of regulating and taxing the cannabis industry can too often overshadow the larger jobs and economic development issues that typically accompany efforts to attract new industry. Word that a new business or industry is looking to bring new jobs to a community is more commonly met with open arms and offers of tax incentives. The cannabis industry is perhaps completely unique in that the inherent jobs and economic development benefits are welcomed more grudgingly and met with the disincentive of special taxes. While the tax revenue potential is attractive to local governments, imposing excessively high rates may reduce the number of businesses that step forward and decrease the likelihood that they will succeed in the regulated market.

Equally important to tax rates is setting a clear and unambiguous direction for regulatory policy. As with any other industry, the cannabis industry desires regulatory certainty. Clear regulatory policies and competitive tax rates will be essential for attracting or holding on to this industry sector, and for helping these businesses to outcompete the persistent illicit market.

Summary and Recommendations

1. The City’s best opportunity for developing tax revenue would come from cannabis retailers (both storefront and delivery-only), as there is both the greatest unmet consumer demand and the greatest return in terms of revenue.
2. The City should set its tax rates for cannabis retailers to be competitive with the average of the cities in the region as shown in Figure 6 on page 9. Of the 7 nearby jurisdictions we sampled, 5 impose a rate of 5.0%. This falls in the midpoint of HdL’s commonly recommended range, which runs from 4.0% up to 6.0%.
3. HdL recommends the tax rates for all other cannabis business activities be set within the ranges shown below in Figure 1. These recommended rates are generally lower than the rates in other nearby jurisdictions, as shown in Figure 6 on page 9, but we note that wholesale cannabis businesses must compete in a statewide market, not just against local competitors. HdL’s recommended rates are designed to keep the cumulative state and local tax rate below 30% (see Appendix B; *State Tax Considerations*).

Figure 1:

Business Type	Recommended Rates
Cultivation (indoors)	\$7.00/sf to \$10.00/sf
Manufacturing	2.0% to 4.0% gross receipts
Distribution	2.0% to 4.0% gross receipts
Testing	1.0% to 2.0% gross receipts
Retail	4.0% to 6.0% gross receipts

4. While we recommend these rates to be competitive, the City should not anticipate any significant revenues from other (non-retail) cannabis businesses. While it is certainly possible that some such businesses may choose to locate in the City, the attractors for non-retail businesses are difficult to anticipate, making it very hard to provide revenue projections for budgeting purposes.
5. Based upon our analysis, we project that licensed cannabis retailers in the City of San Pablo could generate between \$1.5 million and \$2.2 million in annual cannabis tax revenue. These projections assume that retailers are well-located to attract consumers from the surrounding service area, stretching from Albany to the south and to the Carquinez Bridge to the north. In Figure 2, below, we have provided general estimates for revenues that could potentially be generated from other non-retail cannabis businesses, but these are provided for informational purposes only and should not be considered revenue projections. We do not anticipate any cannabis testing laboratories locating in the City.

Figure 2:

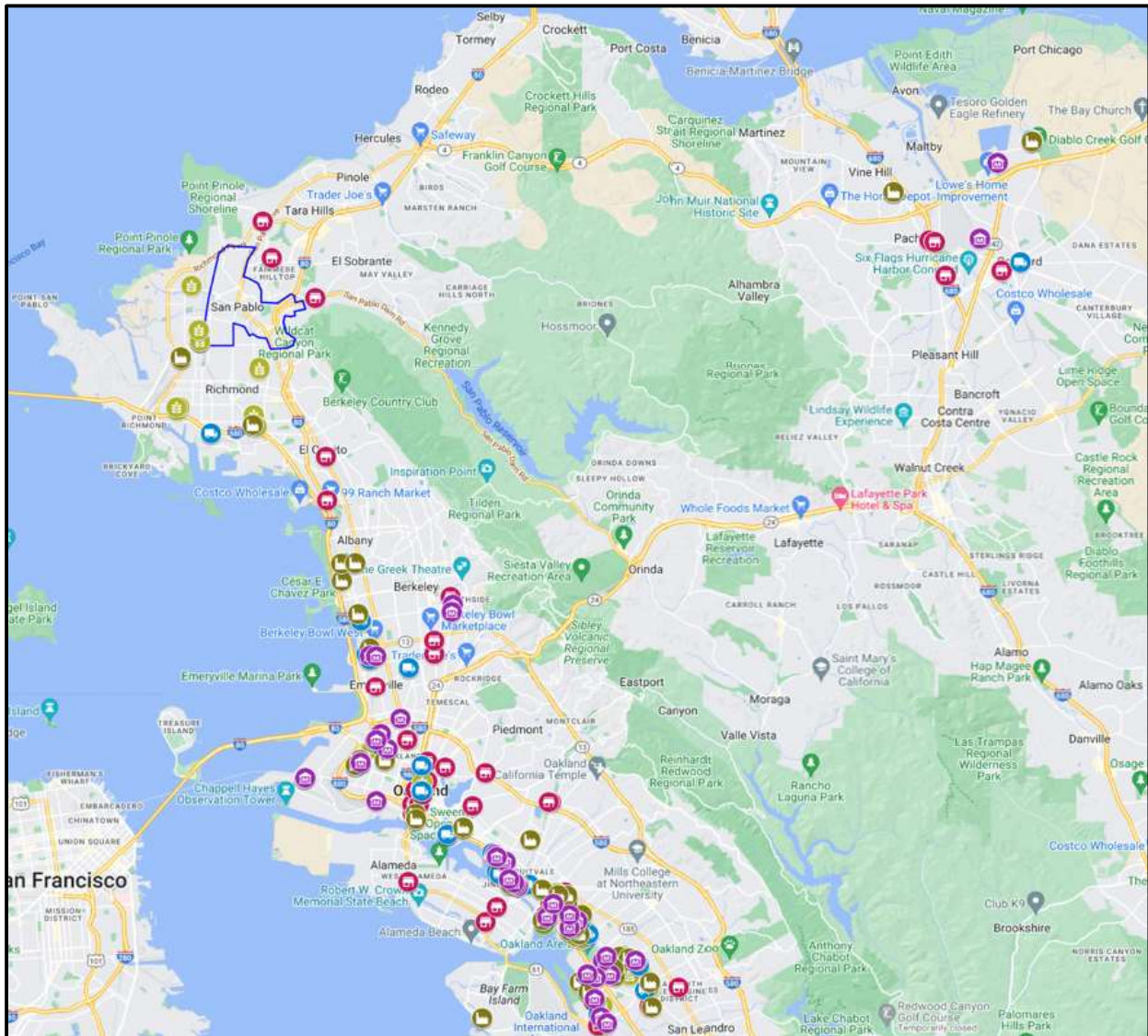
Business Type	Number	Low Rate	Revenue	High Rate	Revenue
Retailers	2	4.00%	\$1,470,000	6.00%	\$2,200,000
Manufacturer	1	2.00%	\$50,000	4.00%	\$100,000
Distributor	1	2.00%	\$50,000	3.00%	\$100,000
Cultivation (Indoor)	1	\$7/sf	\$70,000	\$10/sf	\$100,000
Testing	0	1.00%	\$0	2.00%	\$0
Total			\$1,640,000		\$2,500,000

II. The Cannabis Industry in the East Bay Region

The amount of revenue that a city or county may be able to generate from a cannabis business tax depends upon the type, number and size of cannabis businesses that may choose to locate within the City. Cannabis retailers, cultivators, manufacturers, distributors and testing facilities are each interdependent upon a network of other cannabis businesses, so understanding the extent of the industry in the region provides some basis for estimating the number of businesses which may seek to locate in San Pablo.

We generally assume that wholesale cannabis businesses such as cultivators, manufacturers and distributors would primarily interact or do business with other cannabis businesses within a one-hour radius. Due to natural geographic barriers, population density and the potential for significant traffic delays, we believe the service area for businesses in the San Pablo area would be primarily be focused on the contiguous East Bay region, extending from San Leandro to the south and Concord to the East. The distribution of cannabis businesses in this region is shown below in Figure 3.

Figure 3:



In the more immediate San Pablo area from Oakland to the Carquinez Bridge, data from the Department of Cannabis Cultivation shows that there are a total of 441 licensed cannabis businesses¹. Of these, there are 96 licenses for cultivation or nurseries, 88 distributors, 62 manufacturers, 142 retailers, 52 microbusiness (nearly all of which include retail sales) and 1 testing laboratory.

The vast majority of these businesses are located in the City of Oakland, which has a total of 389 licensed cannabis businesses, of which 179 are retailers (including retailing microbusinesses). There are 27 licensed cannabis businesses in the surrounding City of Richmond and 1 cannabis retailer in the nearby unincorporated area. These licenses are shown below in Figure 4.

Figure 4:

Active Cannabis Licenses in the East Bay Region							
City/County	Cultivation/ Nursery	Distributor	Manufacturer	Retailer	Microbusiness	Testing Laboratory	Total
Albany	0	0	0	0	0	0	0
Berkeley	0	5	5	2	2	1	15
El Cerrito	0	0	0	1	0	0	1
Emeryville	0	2	0	3	3	0	
Hercules	0	0	0	0	0	0	0
Oakland	77	78	55	132	47	0	389
Pinole	0	0	0	0	0	0	0
Richmond	19	3	2	3	0	0	27
Nearby Unincorporated	0	0	0	1	0	0	1
San Pablo	0	0	0	0	0	0	0
Total	96	88	62	142	52	1	441

All data as of January, 2023. The number of licenses may not denote the number of businesses, as individual businesses may hold multiple licenses. In addition, DCC data may attribute some licenses to cities though the location is in the adjacent unincorporated area.

This concentration of cannabis businesses demonstrates that the East Bay region and Oakland in particular have a strong presence within California’s commercial cannabis industry, with a large and diverse industry cluster that can both support and provide competition for additional cannabis businesses.

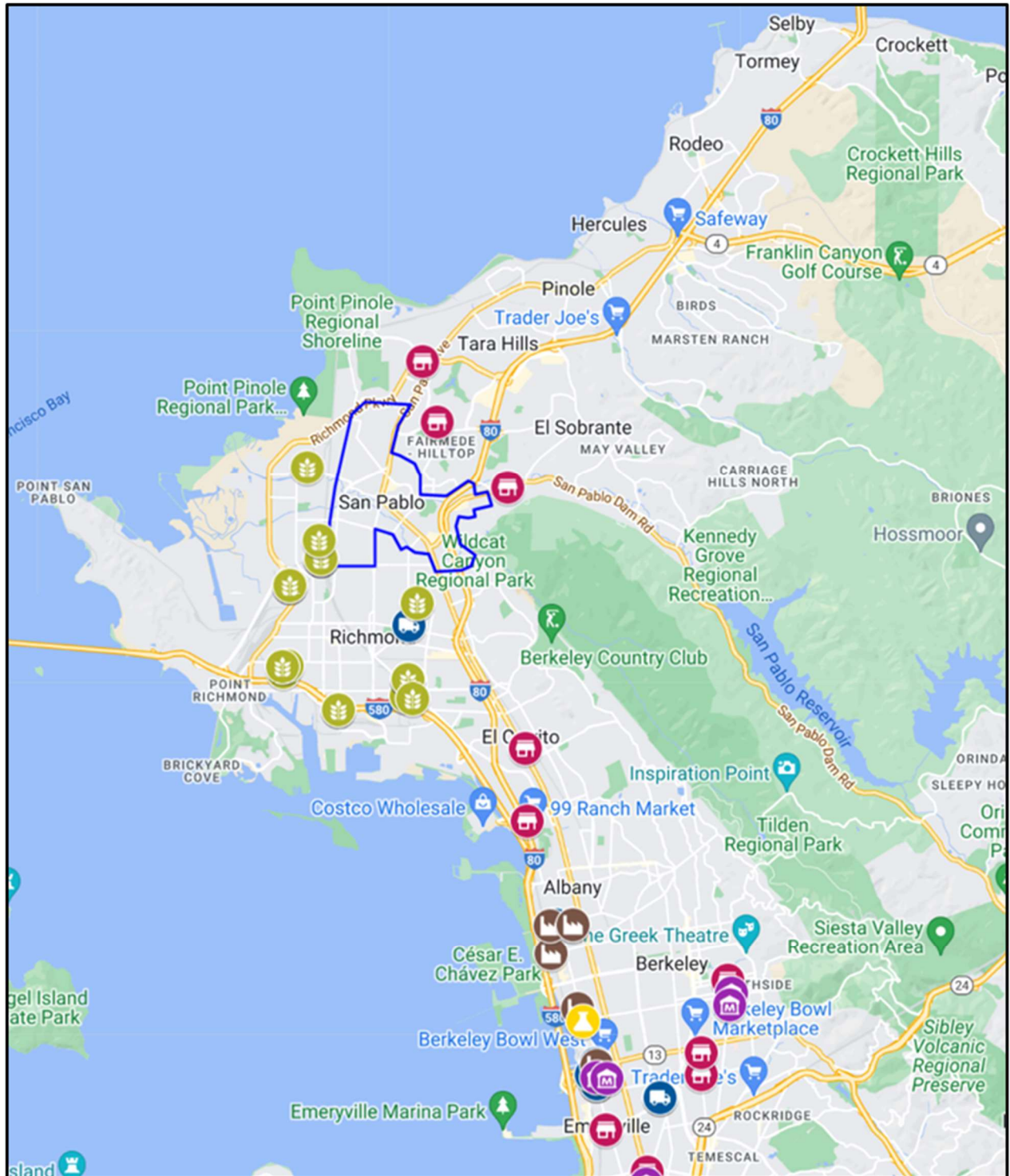
The City of Oakland was a “first-mover” with legalized cannabis dispensaries/retailers far pre-dating Proposition 64. This drove the strong concentration of cannabis businesses within the City as those looking to start licensed businesses initially had few options for where to locate. That is no longer the case.

We anticipate that decisions as to where these businesses choose to locate will be increasingly driven by the same market-based factors that influence such decisions for other types of businesses, including access to markets and consumers, available and appropriate industrial or commercial space, competitive lease rates, a ready talent pool, and a network of supporting businesses and industries. Differences in permitting, regulations and taxes (within reason) will cease to be the sole, overarching consideration.

¹ The number of cultivation licenses does not indicate the number of individual businesses, as it is common for a single cultivation business to hold many individual licenses.

Figure 5, below, shows a closeup of the more immediate San Pablo area from Oakland to the Carquinez Bridge. Retailers are shown in red, microbusinesses are shown in purple, distributors in blue, manufacturers in brown, cultivators in green and testing labs in yellow. As can be seen, the closest businesses to the City of San Pablo are 5 retailers, 9 cultivators (some of which hold multiple licenses) and a single distributor.

Figure 5:



III. Common Cannabis Tax Rates

Cannabis tax rates have been settling and stabilizing around the State since the beginning of 2018. Many cities instituted cannabis taxes prior to the implementation of statewide regulations, with a wide range of tax structures and rates as high as \$30 per square foot (for cultivation) or 18% of gross receipts. Some of these “early adopter” cities have since reduced their rates to be more competitive with common rates that are now emerging around the State.

The State of California initially applied two separate taxes to cannabis: a cultivation tax of \$10.08 per ounce of dried flower (\$3.00 per ounce of dried leaf or trim) and an excise tax of 15% on the purchase of cannabis and cannabis products. These two separate State taxes added as much as 26% to consumer cannabis prices, even before any local taxes were contemplated. This left very little room for local jurisdictions to work within if they wished to remain below the total cumulative tax rate of 30%. This is an important benchmark to allow the local industry to compete against the illicit market and against other regulated cannabis businesses from around the State (see Attachment B; *State Tax Considerations*).

On June 30th of 2022, Governor Newsom signed a budget that included significant changes to the way the state’s cannabis taxes are appliedⁱⁱ. The Governor’s action reduced the tax rate for cannabis cultivation to 0%, effectively eliminating the tax. The cannabis excise tax remains at 15%, but the point of collection has now been shifted from distributors to retail sales as of January 1, 2023, thereby simplifying the tax structure.

Figure 6, below, shows the cannabis tax rates from a number of nearby jurisdictions, as well as the standard rates that HdL commonly recommends to those local agencies that we work with. The initial range of tax rates for cannabis businesses other than cultivation commonly runs from 2% of gross receipts for distributors, to 2.5% for manufacturers and 4% for retailers. These rates may be adjusted up to a maximum of 3%, 4% and 6%, respectively.

Figure 6:

Cannabis Taxes in Nearby Jurisdictions					
	Cultivation	Retail	Manufacture	Distributor	Testing
Oakland ¹	5.0%	5.0%	5.0%	4.0%	0.0%
Berkeley ²	5.0%	5.0%	5.0%	5.0%	5.0%
El Cerrito ³	N/A	5.0%	N/A	N/A	N/A
Contra Costa County	\$7/sf	4.0%	2.5%	2.0%	0.0%
Alameda County ⁴	N/A	N/A	N/A	N/A	N/A
Emeryville	N/A	3.0%	2.0%	2.0%	1.0%
Richmond	5.0%	5.0%	5.0%	5.0%	5.0%
Concord ²	N/A	5.0%	N/A	N/A	N/A
HdL Standard Range	\$7/sf to \$10/sf	4.0% to 6.0%	2.0% to 4.0%	2.0% to 4.0%	1.0% to 2.0%

¹ The City of Oakland has a tiered tax structure and offers tax rebates for qualifying social equity businesses.
² The City of Berkeley sets separate rates for adult-use and medicinal cannabis businesses
³ The City of El Cerrito uses community benefit agreements that may vary between businesses.
⁴ The County of Alameda does not impose a tax on any commercial cannabis activities.

We note that the City of El Cerrito does not have a cannabis tax and instead requires that cannabis businesses enter into a community benefits agreement as a means for generating revenue and/or other benefits. Community benefits agreements or development agreements are a fairly common alternative to voter-approved taxes. In some cases the community benefits fees are standardized for all cannabis businesses, but in other cases the fees are negotiated separately on a case by case basis and may vary from business to business. Along with providing revenue to the host city, community benefits may also include contributions to community organizations, donations of volunteer time, hosting community events or other agreed-upon benefits.

The development and implementation of a cannabis regulatory program also carries costs for the host jurisdiction. These costs may include staff and consultant time for the development of ordinances, initial permitting for businesses, compliance monitoring, annual permit renewals and regulatory enforcement as necessary. These costs vary depending on the desired level of regulatory oversight, the use of consultants, involvement of law enforcement officers and other considerations. Annual permit fees commonly range between \$10,000 and \$30,000, with an average around \$20,000. These costs would all be fully recoverable from the businesses through initial and annual permit fees, leaving all revenues generated by a cannabis tax or community benefit fee available for any purposes that may be desired by the City. Permitting and regulatory costs are discussed in more detail in Appendix D: *Fiscal Impacts and Fees*.

IV. Cannabis Retailers

Retailers are the only cannabis business type that specifically serves the local community, rather than feeding into the statewide market, and so the number of retailers can be assumed to be somewhat proportional to the local population. Cannabis retailers address a local market demand which is generally assumed to exist within a given community regardless of whether there is any legal access. Consumer demand is assumed to generally be a constant regardless of its legal status or the availability of retailers, so it's reasonable to expect that more retailers would mean fewer customers for each and, thus, lower gross receipts.

It is anticipated that providing greater access to retailers would initially facilitate a shift in cannabis purchases happening through legal, regulated means rather than through the illicit market. Eventually, though, the local cannabis market will reach saturation, at which point new cannabis retailers will simply cannibalize sales from existing retailers. Essentially, both licensed and unlicensed cannabis retailers all divide the same finite pie. The taxable amount of gross sales will likely plateau at some point, regardless of the number of retailers.

Under California's regulatory program, it was anticipated that consumers would have little reason to purchase cannabis in the medical segment rather than buying in the adult use segment. Both medical and adult use cannabis will pay the State cultivation tax and excise tax, with the only advantage being an exemption from regular sales tax for qualifying patients who present a State-issued identification card at the time of purchase. Only 3,199 cards were issued in all of California in 2022ⁱⁱⁱ and only 111 such cards were issued in Contra Costa County, making their impact on tax revenues statistically insignificant. Eligibility for this limited sales tax exemption will cost consumers approximately \$100 per year, plus time and inconvenience, for a savings of 9.5% in the City of San Pablo^{iv}. It's anticipated that this will provide no price advantage for the majority of cannabis consumers^v.

The Department of Cannabis Control² had projected that more than half of the adult use purchases in the illicit market would transition to the legal market to avoid the inconvenience, stigma and risks of buying unknown product through an unlicensed seller^{vi}. Essentially, the easier, cheaper and more reliable it is for consumers to access legal cannabis, the less reason they will have to purchase it through the illicit market. That same study projects that 60% of those currently in the legal, medical cannabis market will shift to the adult use market, for the reasons noted above. The availability of legal adult use cannabis is also anticipated to produce a small 9.4% increase in consumer demand. This transition to legal sales is dependent upon the availability of legal access. The majority of cities and counties in California still do not allow or permit cannabis retailers, which has buoyed a persistent illicit market.

Once the legal, adult use market is fully functioning throughout the state, it is anticipated to capture about 61.5% of the overall cannabis market in California. The medicinal cannabis market is projected to decline to just 9% of the overall market, though this projection may change due to the increasing popularity of CBD products. The other 29.5% is expected to remain in the illicit market^{vii}. The vast majority of retail licenses issued by the DCC are for both medicinal and adult use.

² The agency was still named the Bureau of Cannabis Control at the time.

Figure 7 shows the number of retailers and retailing microbusinesses within the greater San Pablo region, along with the populations for each of the cities. Within this region as a whole, there is roughly one cannabis retailer for every 4,185 people. This figure is heavily weighted by the high concentration of retailers and retailing microbusinesses in the City of Oakland, with a combined 179 such businesses. HdL uses a general benchmark of one retailer for every 20,000 people to determine whether an area is reasonably served with cannabis retailers. The concentration of retailers in this region is nearly 5-times that general benchmark.

We assume that retailers in the City of Oakland are serving a much broader geographic area through delivery services, likely extending as far away as the San Francisco peninsula, Marin, Solano, the South Bay and inland areas. Because of this, we believe the best opportunity for generating cannabis tax revenue for the City of San Pablo would come from storefront retailers rather than delivery services.

Figure 7:

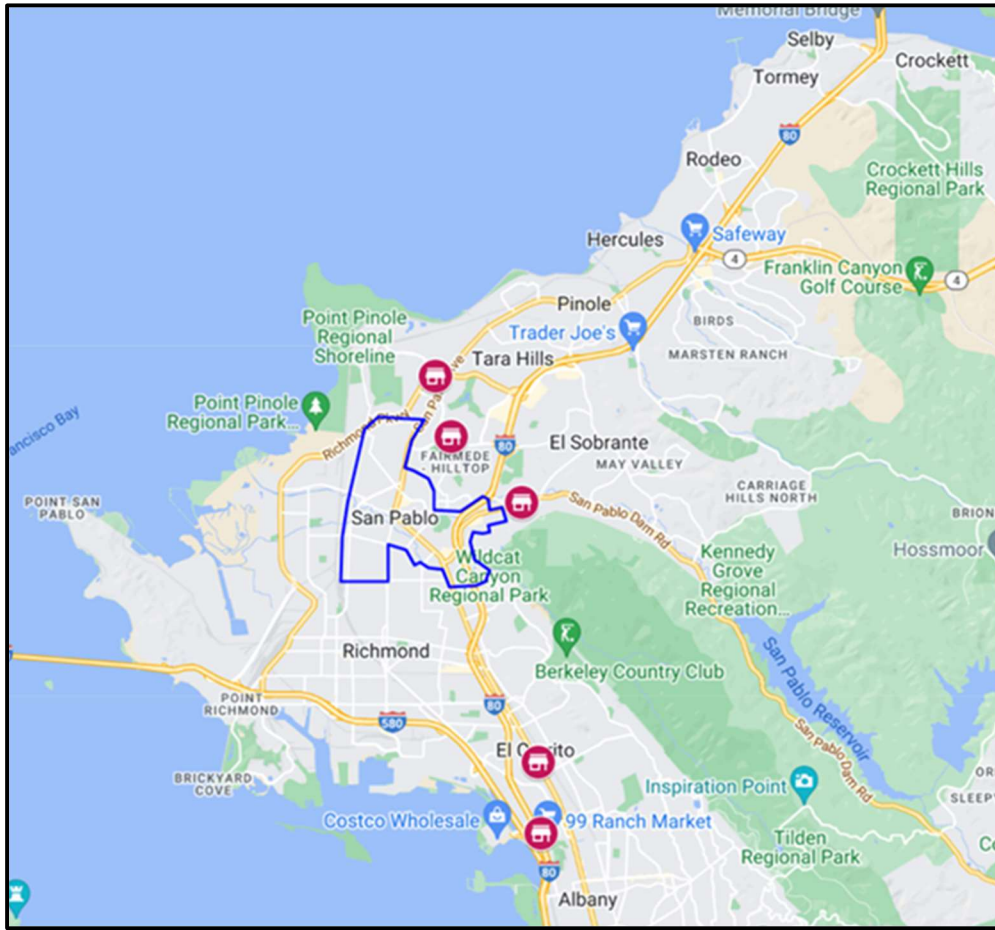
Cannabis Retailers in the Greater San Pablo Region					
City/County	Population	Retailer	Retailing Microbusiness	Total	Population per Retailer
Albany	19,488	0	0	0	N/A
Berkeley	117,145	2	2	4	29,286
El Cerrito	25,845	1	0	1	25,845
Emeryville	12,870	3	3	6	2,145
Hercules	26,091	0	0	0	N/A
Oakland	433,823	132	47	179	2,424
Pinole	18,821	0	0	0	N/A
Richmond	115,639	3	0	3	38,546
Nearby Unincorporated	42,118	1	0	1	N/A
San Pablo	31,773	0	0	0	N/A
Total	811,840	142	52	194	4,185

Sales tax is collected at the point of purchase, which allows storefront cannabis retailers to capture sales tax dollars from outside of their host cities. This applies to cannabis retail taxes, too. Sales made to walk-in customers from neighboring communities will collect the entirety of sales and transactions taxes imposed by the City.

For purchases made via delivery, however, the point of purchase is considered to be the location where the goods trade hands. Thus, while storefront retailers may capture sales and cannabis tax dollars from outside of the City, delivery services cannot. For this reason, revenue projections for storefront retailers would include walk-in customers from other nearby communities, while revenue projections for cannabis delivery services would be limited to the City’s population of roughly 32,000.

Retail studies show that 93% of consumers are willing to travel 15 to 20 minutes to make most routine purchases^{viii}, meaning that storefront retailers in San Pablo may be able to capture sales tax (and cannabis tax) from the surrounding area. For our analysis, we assume that the service area for retailers in the City of San Pablo would include the surrounding City of Richmond, the nearby cities of El Cerrito, Hercules and Pinole and the unincorporated area north to the Carquinez Bridge. This area is shown in Figure 8 on the next page.

Figure 8:



We estimate the total population of this nearby service area to be roughly 260,287 people, including San Pablo’s population of 31,773. Data from the Department of Cannabis Cultivation shows that there are currently 5 licensed cannabis retailers within this service area, giving a density of one retailer for roughly every 52,000 people, far lower than the concentration when we include retailers in the City of Oakland. This suggests that there is still opportunity for additional retailers in the Richmond/San Pablo area, despite the outsized impact of the City of Oakland on the region. This is shown in Figure 9, below.

Figure 9:

Cannabis Retailers in the San Pablo Service Area					
City/County	Population	Retailer	Retailing Microbusiness	Total	Population per Retailer
El Cerrito	25,845	1	0	1	25,845
Hercules	26,091	0	0	0	N/A
Pinole	18,821	0	0	0	N/A
Richmond	115,639	3	0	3	38,546
Nearby Unincorporated	42,118	1	0	1	N/A
San Pablo	31,773	0	0	0	N/A
Total	260,287	5	0	5	52,057

Figure 10, below, provides our estimate of the potential revenues that may be generated by storefront cannabis retailers within the City of San Pablo. We note that these projections are based on the population of the service area and are not a function of the number of retailers (i.e., more retailers would share the same market and would not significantly increase the volume of sales or revenue).

Our estimates assume a total service area population of 260,287 people, as discussed above. We assume that 13% of that population are regular cannabis users^{ix}, and that they make an average purchase of \$73 with an average frequency of twice per month^x. This gives total annual gross receipts of roughly \$59,000,000. We assume that leakage to the 5 retailers in other nearby jurisdictions would be around 38%, which brings the adjusted gross receipts down to roughly \$22.5 million.

We have applied our recommended range of retail tax rates as shown in Figure 6 on page 9. Applying a rate of 4.0% would generate roughly \$1.5 million in annual revenue for the City. Applying a rate of 5.0% would generate roughly \$1.8 million, while a rate of 6.0% would generate roughly \$2.2 million in annual revenue for the City of San Pablo. The City would also collect an additional 1.0% from the Bradley-Burns base sales tax on all in-store sales.

Figure 10:

Revenue Projections for Cannabis Retailers	
San Pablo population	31,773
Surrounding service area population	228,514
Total service area population	260,287
Percentage of population that uses cannabis	13%
Number of cannabis users	33,837
Average transaction amount	\$73
Transaction frequency (per month)	2
Monthly gross receipts	\$4,940,247
Annual gross receipts	\$59,282,967
Existing retailers	5
Retailer capacity at 1 per 20,000 population	13
Leakage to existing retailers (%)	38%
Leakage to other jurisdictions (\$)	\$22,527,528
Adjusted gross receipts	\$36,755,440
Cannabis business tax rate:	
4.00%	\$1,470,218
5.00%	\$1,837,772
6.00%	\$2,205,326

V. Cannabis Manufacturers

The manufacturing sector is still evolving and expanding, which presents significant opportunities for innovation, business development and job growth. The range of products being produced includes an ever-increasing variety of edibles such as candies, cookies, dressings, and infused (non-alcoholic) drinks. Manufacturers may produce their own extract on site, or they may buy extract from other Type 6 or Type 7 licensees. Much like any other industry, cannabis manufacturers often depend upon other businesses to supply them with the various materials or components that go into their final product. These suppliers do not have to be located in or even near the same jurisdiction as the final manufacturer, and may be located anywhere throughout the state.

Some manufacturers may handle all steps from extraction to packaging the end product in the form of vape pens or other such devices. Others may handle only discrete steps, such as making the raw cannabis concentrate, which is then sold either directly to retailers or to a Type N manufacturer who will package it into vapor cartridges or other end consumer products. Manufacturers also produce a wide variety of tinctures, as well as topicals such as cannabis infused lotions, salves, sprays, balms, and oils.

As of April , 2022, the Department of Cannabis Control shows 836 cannabis manufacturing licenses statewide. This is down from 1,029 in 2020, suggesting that the number of such businesses has likely plateaued somewhat. Of these, 453 are for non-volatile extraction, 184 are for volatile extraction, 147 are for non-extraction manufacturing, 31 are for packaging and labeling, and 21 are for manufacturers using a shared-use facility³.

In its 2017 regulatory impact analysis^{xi}, the Manufactured Cannabis Safety Branch (MCSB; now absorbed in the Department of Cannabis Control) estimated that there may ultimately be as many as 1,000 cannabis manufacturing businesses in California, employing around 4,140 people. This would indicate an average of 4 new jobs per manufacturer, though this figure likely varies significantly depending on the size and nature of each business.

While there has been a decline in the number of cannabis manufacturers around the state, it must be noted that fewer than half of the counties and cities in California currently allow commercial cannabis businesses. We believe that the number of cannabis products manufacturers will ultimately grow in parallel and proportion to the size of California's legal and licensed cannabis market. We also believe that the projection for the average number of employees may also be on the low side. HdL is aware of individual manufacturers which have over 100 employees. While this may not be the norm, it demonstrates that individual cannabis manufacturers have the potential to far exceed the MCSB's early predictions.

HdL has reviewed pro-formas for numerous cannabis manufacturers seeking permits in counties and cities throughout California. From our review we have seen a range of gross receipts from around \$1 million to well over \$20 million, with an average in the range of \$2 million to \$3 million.

³ These manufacturing license types are all defined in Appendix A; Legal and Regulatory Background for California.

Figure 11, below, shows the range of cannabis tax revenues that could be generated by a single cannabis manufacturer in the City with gross receipts of \$2.5 million per year. We emphasize that this is an average based on a huge range, but this provides a conservative estimate for purposes of revenue projections.

Applying HdL’s recommended initial rate of 2.0%, this hypothetical manufacturer would generate \$50,000 in cannabis tax revenue for the City. Applying a rate of 3.0% would generate \$75,000, and a rate of 4.0% would generate \$100,000 in annual cannabis tax revenue for the City.

Figure 11:

Cannabis Manufacturers; HdL Recommended Rates					
Business Type	# of Licenses	Avg Gross Receipts	Revenue @ 2.0% Tax Rate	Revenue @ 3.0% Tax Rate	Revenue @ 4.0% Tax Rate
Manufacturer	1	\$2,500,000	\$50,000	\$75,000	\$100,000

VI. Cannabis Distributors

Perhaps more than any other part of the cannabis supply chain, distributors are greatly dependent upon the number and variety of other cannabis business types within their service area. Essentially, distributors need a certain “critical mass” of other cannabis businesses for them to serve. Because of this, distributors tend to be located in areas which have an appropriate base of other cannabis businesses to work with.

As a very general figure, the number of cannabis distributors statewide is roughly 25% of the number of all cannabis businesses, combined, or 1 distributor for every 3 other cannabis businesses. In addition, almost all (391 out of 392) licensed microbusinesses in California include distribution as one of their licensed activities.

The business model for distributors is commonly based on a percentage markup on the price paid to their suppliers. This markup commonly averages 20% to 30%, though this depends upon the actual services being provided. A distributor which is only buying and reselling cannabis at wholesale may make as little as 10% or less on a transaction, while a distributor which is purchasing raw flower and packaging it as pre-rolls for retail sale may make 50% or more on such a value-added transaction.

Distributors may have annual revenues ranging from less than \$1 million to over \$70 million. The vast majority of distributors would fall at the lower end of that range, with those at the high end qualifying as outliers. While there is not yet an abundance of data to determine the average gross receipts for distributors, HdL has reviewed a number of pro-formas for distributors seeking licenses in other jurisdictions. These indicate anticipated gross receipts commonly in the range of \$2 million to \$3 million per year, with an average of \$2.5 million. Though, again, this is an average based upon a very wide range.

Data from the Department of Cannabis Control shows that there are currently 88 licensed distributors in the greater San Pablo region and 52 microbusinesses, all of which include distribution as one of their licensed activities. With a total of 441 cannabis businesses of all types, this gives a ratio of nearly 1 distributor out of every 3 cannabis businesses. This suggests that there is already an overabundance of distributors in the area, reducing the likelihood of seeing such businesses locate in the City of San Pablo. We anticipate that distribution would most likely occur as an ancillary activity for a business conducting other commercial cannabis activities such as retail.

Figure 12, below, shows the range of cannabis tax revenues that could be generated by a cannabis distributors in the City of San Pablo. Assuming average gross receipts of \$2.5 million, applying a tax rate of 2.0% would generate \$50,000 in cannabis tax revenue; a rate of 3.0% would generate \$75,000, and a rate of 4.0% would generate \$100,000 in annual cannabis tax revenue for the City.

Figure 12:

Cannabis Distributors; HdL Recommended Rates					
Business Type	# of Licenses	Avg Gross Receipts	Revenue @ 2.0% Tax Rate	Revenue @ 3.0% Tax Rate	Revenue @ 4.0% Tax Rate
Distributor	1	\$2,500,000	\$50,000	\$75,000	\$100,000

VII. Cultivation

The State of California has been issuing licenses for cannabis cultivation since January 1, 2018. The Standardized Regulatory Impact Assessment prepared by the state as a part of its rule-making process estimated that Californians consume approximately 2.5 million pounds of cannabis per year^{xii}.

As of January 18, 2023, data from the DCC shows 7,651 active cultivation licenses statewide, held by 3,359 distinct businesses⁴. These licenses cover over 1,800 acres of canopy and are capable of producing over 16 million pounds of cannabis per year. The 20 largest cultivation companies hold 2,232 licenses between them, totaling 515 acres and capable of producing over 2.6 million pounds of flower per year, or enough to supply the entire statewide market.

Despite this cultivation capacity, reporting from the California Department of Tax and Fee Administration (CDTFA) shows that only 2.4 million pounds of cannabis entered the commercial market in 2021^{xiii} (the last year for which data is available), which is very close to the CDFA's early estimate. The huge difference between cultivation capacity and the size of the licensed market is difficult to explain. It is believed that some portion of legally cultivated cannabis is being diverted into the illicit market both within California and across the country, but the amount and the mechanism for how it is being diverted are unknown.

The cannabis cultivation market in California has far exceeded its saturation point, which suggests that there is not enough room for those growers already licensed, much less new entrants into the market. More than any other part of the cannabis industry, entry into the highly competitive cultivation sector can be filled with risk and requires ample capitalization and a clear strategy to win shelf space. It is not uncommon for cannabis producers and manufacturers to have to pay for retail shelf space just to get their product in front of consumers.

Cannabis cultivation taxes are most commonly assessed on a square-footage basis, though it may also be taxed based on a percentage of gross receipts. For indoor cannabis cultivation, HdL generally recommends an initial rate of \$7 per square foot and a maximum rate of \$10 per square foot.

Figure 13, below, shows the cannabis tax revenues that could be generated from a small indoor facility cultivating up to 10,000 square feet of cannabis. Applying HdL's recommended initial rate of \$7.00 per square foot would generate \$70,000 in annual cannabis tax revenue. Applying a rate of \$8.50 would generate \$85,000 and a rate of \$10.00 per square foot would generate \$100,000 in annual cannabis tax revenue for the City.

Figure 13:

Cannabis Cultivation; HdL Recommended Rates					
Business Type	# of Licenses	Square Footage	Revenue @ \$7.00/sf	Revenue @ \$8.50/sf	Revenue @ \$10.00/sf
Cultivation	1	10,000	\$70,000	\$85,000	\$100,000

⁴ The actual number of distinct businesses is likely somewhat lower, as minor typos or inconsistencies in how a name is written appear as separate business names in the DCC database.

VIII. Testing Laboratories

As of January 18, 2023, the Department of Cannabis Control has issued 45 licenses for cannabis testing laboratories in California. These laboratories tend to be located in areas with a large amount of commercial cannabis activity. Data from the DCC shows 1 testing laboratory in the San Pablo region, located in the City of Berkeley.

State law requires that all dried cannabis flower or leaf must be tested for tetrahydrocannabinol (THC) and cannabidiol (CBD) content, contaminants, impurities and other factors before it can be sold to a manufacturer, distributor, dispensary or end user. Batch testing for raw cannabis requires a 2.3 gram sample per pound, which works out to a loss of 0.5% of the volume (the sample must be destroyed after testing). DCC regulations limit the maximum batch size to no more than 10 pounds. An online survey of cannabis testing facilities in California suggest an average of \$750 per 10-pound batch, or \$75 per pound, which equals 7.5% of a hypothetical \$1,000 per pound price. The cost and loss of product amount to an additional 8% cost to the product at wholesale.

Testing is a semi-regulatory function mandated by the State to protect consumer health and safety. Unlike cultivation or manufacturing, testing does not create product or add value to the product, and unlike distributors or retailers, the testing laboratory is prohibited from having any ownership interest in the product. State law requires that testing laboratories be completely independent from any other cannabis business, and prevents them from benefitting from, or having any interest in, the results of the test or the value of the product. In this way, testing laboratories are categorically different from any other cannabis business type.

HdL generally recommends that cannabis testing laboratories be taxed at a rate of 1% up to 2% of gross receipts, though some cities and counties have chosen not to apply a tax to testing facilities. Pro formas reviewed by HdL suggest average gross receipts of \$2,000,000 for testing laboratories. Figure 14, below, shows the revenue that could potentially be generated from 1 facility. Given the small number of such laboratories in California, we recommend that the City should not anticipate any testing laboratories for purposes of revenue projections.

Figure 14:

Cannabis Testing Laboratories; HdL Recommended Rates						
Testing Laboratories	# of Licenses	Avg Gross Receipts	Total Gross Receipts	Revenue @ 1.0% Tax Rate	Revenue @ 1.5% Tax Rate	Revenue @ 2.0% Tax Rate
Scenario 1	1	\$2,000,000	\$2,000,000	\$20,000	\$30,000	\$40,000

APPENDIX

A. Legal and Regulatory Background for California	Page 21
B. State Tax Considerations	Page 24
C. General Economic Impacts	Page 26
D. Fiscal Impacts and Fees	Page 28
E. References	Page 31

A. Legal and Regulatory Background for California

The legal and regulatory status of cannabis in the State of California has been continually evolving ever since the passage of Proposition 215, the Compassionate Use Act of 1996 (CUA), which de-criminalized the use, possession and cultivation of cannabis for qualifying patients and their primary caregivers when such use has been recommended by a physician. The CUA did not create any regulatory program to guide implementation, nor did it provide any guidelines for local jurisdictions to establish their own regulations. The lack of legal and regulatory certainty for medical marijuana (or cannabis) continued for nearly 20 years, until the passage of the Medical Cannabis Regulation and Safety Act (MCRSA) in October of 2015. MCRSA created a State licensing program for commercial medical cannabis activities, while allowing counties and cities to maintain local regulatory authority. MCRSA required that the State would not issue a license without first receiving authorization by the applicable local jurisdiction.

On November 8, 2016, the voters of the State of California approved Proposition 64, the Adult Use of Marijuana Act (AUMA), which allows adults 21 years of age or older to legally grow, possess, and use marijuana for personal, non-medical “adult use” purposes, with certain restrictions. AUMA requires the State to regulate non-medical marijuana businesses and tax the growing and selling of medical and non-medical marijuana. Cities and counties may also regulate non-medical marijuana businesses by requiring them to obtain local permits or restricting where they may be located. Cities and counties may also completely ban marijuana related businesses if they so choose. However, cities and counties cannot ban transport of cannabis products through their jurisdictions, nor can they ban delivery of cannabis by licensed retailers to addresses within their jurisdiction (added later through regulations).

On June 27, 2017, the Legislature enacted SB 94, which repealed MCRSA and incorporated certain provisions of MCRSA into the licensing provisions of AUMA. These consolidated provisions are now known as the Medicinal and Adult-Use Cannabis Regulation and Safety Act (MAUCRSA). MAUCRSA revised references to “marijuana” or “medical marijuana” in existing law to instead refer to “cannabis” or “medicinal cannabis,” respectively. MAUCRSA generally imposes the same requirements on both commercial medicinal and commercial adult-use cannabis activity, with certain exceptions. MAUCRSA also made a fundamental change to the local control provisions. Under MCRSA, an applicant could not obtain a State license until they had a local permit. Under MAUCRSA, an applicant for a State license does not have to first obtain a local permit, but they cannot be in violation of any local ordinance or regulations. The State licensing agency shall contact the local jurisdiction to see whether the applicant has a permit or is in violation of local regulations, but if the local jurisdiction does not respond within 60 days, then the applicant will be presumed to be in compliance and the State license will be issued.

MAUCRSA authorizes a person to apply for and be issued more than one license only if the licensed premises are separate and distinct. With the passage of AB 133 in 2017, a person or business may co-locate multiple license types on the same premises, allowing a cultivator to process, manufacture or distribute their own product from a single location. This includes the allowance to cultivate, manufacture, distribute or sell cannabis for both medical and adult use from a single location. Licensees of cannabis testing operations may not hold any other type of license. However, these allowances are still subject to local land use authority, so anyone seeking to operate two or more license types from a single location would be prohibited from doing so unless local regulations allow both within the same zone.

The table below provides a detailed overview of the license types available under California’s cannabis regulations:

State Cannabis Business License Types				
Type	Activity	Description	Details	Notes
1	Cultivation	Outdoor; Specialty, Small	Up to 5,000 sf, or 50 plants on non-contiguous plots	A, B
1A	Cultivation	Indoor; Specialty, Small	501 sf - 5,000 sf	A, B
1B	Cultivation	Mixed-Light; Specialty, Small	2,501 sf - 5,000 sf	A, B
1C	Cultivation	Outdoor/indoor/mixed; Specialty Cottage, Small	Up to 25 plants outdoor; up to 2,500 sf mixed light; up to 500 sf indoor	A, B
2	Cultivation	Outdoor; Small	5,001 sf - 10,000 sf	A, B
2A	Cultivation	Indoor; Small	5,001 sf - 10,000 sf	A, B
2B	Cultivation	Mixed Light, Small	5,001 sf - 10,000 sf	A, B
3	Cultivation	Outdoor; Medium	10,001 sf - one acre	A, B, C
3A	Cultivation	Indoor; Medium	10,001 sf - 22,000 sf	A, B, C
3B	Cultivation	Mixed-Light; Medium	10,001 sf - 22,000 sf	A, B, C
4	Cultivation	Nursery		A, B
-	Cultivation	Processor	Conducts only trimming, drying, curing, grading and packaging of cannabis	A, B, E
5	Cultivation	Outdoor; Large	Greater than 22,000 sf	A, B, D
5A	Cultivation	Indoor; Large	Greater than 22,000 sf	A, B, D
5B	Cultivation	Mixed-Light; Large	Greater than 22,000 sf	A, B, D
6	Manufacturer 1	Extraction; Non-volatile	Allows infusion, packaging and labeling	A, B
7	Manufacturer 2	Extraction; Volatile	Allows infusion, packaging and labeling, plus non-volatile extraction	A, B
N	Manufacturer	Infusion for Edibles, Topicals	No extraction allowed	A, B, E
P	Manufacturer	Packaging and Labeling	No extraction allowed	A, B, E
S	Manufacturer	Shared-use manufacturer	Manufacturing in a shared-use facility	A, B, E
8	Testing		Shall not hold any other license type	A
9	Retailer	Non-storefront retail delivery	Retail delivery without a storefront	A, F
10	Retailer	Retail sale and delivery		A, B
11	Distributor			A, B
12	Microbusiness	Cultivation, Manufacturer 1, Distributor and Retailer	< 10,000 sf of cultivation; must meet requirements for all license types	A, B
A	All license types valid for 12 months and must be renewed annually			
B	All license types except Type 8 Testing must be designated "A" (Adult Use), "M" (Medical) or "A/M"			
C	CDFA shall limit the number of licenses allowed of this type			
D	No Type 5 licenses shall be issued before January 1, 2023			
E	Established through rulemaking process			

AUMA, and its successor MAUCRSA, required three state agencies, the Bureau of Cannabis Control, the California Department of Food and Agriculture, and the California Department of Public Health, to permit commercial cannabis licensees and to adopt regulations for the cannabis industry. On January 16, 2019, all three agencies announced that the state's Office of Administrative Law officially approved state regulations, which took immediate effect and replaced emergency regulations that had been in effect since 2017. The final regulations were largely similar to the emergency regulations, but somewhat controversially, Section 5416(d) of the Bureau of Cannabis Control regulations authorizes deliveries of cannabis products into any city or county in the state, even if a city or county has banned commercial deliveries.

On July 12, 2021, Governor Gavin Newsom signed AB 141 into law, which consolidated the Bureau of Cannabis Control, the California Department of Food and Agriculture's CalCannabis Division, and the California Department of Public Health's Manufactured Cannabis Safety Branch into a single agency, now called the Department of Cannabis Control.

B. State Tax Considerations

To determine what local tax rates might be most appropriate, they must be considered in the context of other taxes imposed by the State. Any local taxes will be in addition to those taxes applied through the Adult Use of Marijuana Act (AUMA), which imposes both a 15% excise tax on purchases of cannabis or cannabis products and a separate cultivation tax on harvested cannabis that enters the commercial market, as well as sales tax. Taxes are most commonly expressed as a percent of price or value, so some method of conversion is necessary to allow development of an appropriate cultivation tax based on square footage.

The State of California previously imposed a tax of up to \$10.08 per ounce on cannabis cultivation, but this tax was eliminated in June of 2022. The state continues to collect an excise tax of 15% on all retail sales of cannabis.

Conversations with cannabis industry trade groups suggest that cumulative tax rates of 30% or higher create too much price disparity between legal and illegal cannabis, making it harder for the regulated industry to compete with the illicit market. Higher local tax rates can also make a county or city less attractive to the industry, especially for manufacturers and distributors, which have greater flexibility in choosing where to locate. We believe that setting local tax rates that stay below this 30% threshold will help keep the local cannabis industry competitive, thus encouraging the transition to the legal market.

Cumulative Cannabis Taxes			
Category	Amount	Increase	Cumulative Price
Producer Price (Indoor)	\$1,000	\$1,000	\$1,000
State Cultivation Tax, per oz.	\$0.00	\$0	\$1,000
Local Tax (\$7/sf equivalent)	1.75%	\$18	\$1,018
Batch Testing	\$75/lb (0.75%)	\$75	\$1,093
Wholesale Price w/ Taxes		\$1,093	
Total Tax at Wholesale		\$93	
Tax as %		9.25%	
Distributor Markup	20.00%	\$219	\$1,311
Local Tax	2.00%	\$26	\$1,337
Total Distributor Price		\$1,337	
Total Taxes at Distributor		\$119	
Total Tax as %		8.88%	
Retailer Markup	100.00%	\$1,337	\$2,674
Local Tax	4.00%	\$107	\$2,781
State Excise Tax	15.00%	\$401	\$3,183
Total Retailer Price		\$3,183	
Total Taxes at Retail		\$627	
Total Tax as %		19.70%	
CA Sales Tax (no MMIC)	6.25%	\$199	\$3,381
City Sales Tax	1.00%	\$32	\$3,413
County and District Taxes	2.25%	\$72	\$3,485
Total Taxes at Retail	9.50%	\$929	\$4,414
Total Tax as %		21.05%	
Total Local Tax		5.35%	\$182.52

The above table shows how the cumulative tax rate on adult-use cannabis builds as the product moves towards market. The value of the product increases as it moves through the supply chain towards market, with manufacturers, distributors and retailers each adding their own markup. Testing laboratories do not add a direct markup to the product, but the cost of testing and the loss of a small test sample can add around \$75 per pound. Any or all of these activities may be taxed.

This model assumes a hypothetical case where cultivation, manufacturing, testing, distribution and retail sale all happen within the same jurisdiction and are thus all subject to that jurisdiction's tax rates. In actuality, this is unlikely to be the case. Manufacturers may work with product purchased from anywhere in California, and may sell their product to retailers elsewhere, as well. The cumulative tax burden for any product at retail sale will almost always include a variety of tax rates from numerous jurisdictions.

C. General Economic Impacts

Discussion of regulating and taxing the cannabis industry can too often overshadow the larger jobs and economic development issues that typically accompany efforts to attract new industry. Word that a new business or industry is looking to bring hundreds of new jobs to a community is more commonly met with open arms and offers of tax incentives. The cannabis industry is perhaps completely unique in that the inherent jobs and economic development benefits are welcomed more grudgingly and met with the disincentive of special taxes.

As with any other industry, the cannabis industry does not exist in a vacuum. Those businesses that actually grow, process, manufacture, distribute and sell cannabis products support a wide variety of other businesses that may never touch the actual product itself. Cultivators support garden supply stores, green house manufacturers, irrigation suppliers, soil manufacturers, and a wide variety of contractors including building and construction, lighting and electrical, HVAC, permitting, and engineering. Manufacturers support many of these same businesses, plus specialized tooling and equipment manufacturers, and product suppliers for hardware, packaging, and labeling. All of these businesses support, and are supported by, a host of ancillary businesses such as bookkeepers, accountants, tax preparers, parcel services, marketing and advertising agencies, personnel services, attorneys, mechanics, facilities maintenance, security services, and others.

The economic benefits are not limited to those in the cannabis industry, itself. Cultivators bring new money into the community by selling their products into a statewide market. Their profits and the salaries they pay move into the general local economy, supporting stores, restaurants, car dealerships, contractors, home sales and other businesses. In Humboldt County, a study done in 2011 found that at least \$415 million dollars in personal income was entering the local economy annually from the cannabis industry, roughly equal to one quarter of the county's entire \$1.6 billion economy.

While Humboldt is likely an outlier, research done by HdL for other clients suggests that other counties and cities see similar, if smaller, economic inputs from this industry, with some in the range of \$100 million dollars or more annually. As this industry adapts to a legal paradigm, the challenge for some counties will be mitigating and minimizing the economic loss as the illicit market slowly fades away.

Because of the emerging nature of this industry, it still attracts many small, independently-owned businesses. Numerous studies have demonstrated that locally-owned, independent businesses recirculate a far higher percentage of every dollar back into the local community than large, corporately-owned businesses do. The same economic development arguments that are used to support other independent, locally-owned businesses apply to this industry, too. Host cities or counties should expect to see typical economic benefits from these new (or newly daylighted) businesses on par with other new businesses, separate from any tax revenue that may be generated.

Industry experts believe that California's current statewide production is more than eight times higher than the State's population consumes, a figure derived from the SRIA done for CDFA's cannabis cultivation program. That assessment found that California's cannabis industry produces some 13.5 million pounds of cannabis per year, which would be enough to provide over half a pound of cannabis per year for every Californian 21 and over. However, the assessment also found that California's 4.5 million cannabis users only consume about 2.5 million pounds of cannabis per year.

Analysis done for the Bureau of Cannabis Control (now the Department of Cannabis Control, or DCC) projected that more than half of the adult use purchases currently in the illicit market would transition to the legal market to avoid the inconvenience, stigma and risks of buying unknown product through an unlicensed seller. Essentially, the easier, cheaper and more reliable it is for consumers to access quality cannabis legally, the less reason they will have to purchase it through the illicit market. That same study projects that 60% of those currently in the legal, medical cannabis market will shift to the adult use market, for the reasons noted above. The availability of legal adult use cannabis is also anticipated to produce a small 9.4% increase in consumer demand.

Given these figures, cities and counties should expect to see some increase in retail sales as these shifts occur in the market. More significantly, the existence of legally permitted cannabis retailers will allow a far greater portion of existing cannabis sales to be captured by legal (and tax-paying) retailers.

The shift from medical to adult use sales is not expected to change the overall volume of sales, only the category into which they fall. Once the legal, adult use market is properly functioning, it is anticipated to capture about 61.5% of the overall cannabis market in California. The legal medical cannabis market is projected to decline to just 9% of the overall market. The other 29.5% is expected to remain in the illicit market.

These numbers only apply to the 2.5 million pounds of cannabis that is consumed in California, representing the potential size of the legal cannabis market. If 29.5% of the cannabis consumed in California continues to come from the illicit market, then the size of the market for legal cannabis must be adjusted downward accordingly. This would reduce the size of the legal market in California to 1.76 million pounds.

As of January 18, 2023, data from the DCC shows 7,651 active cultivation licenses statewide, held by 3,359 distinct businesses⁵. These licenses cover over 1,800 acres of canopy and are capable of producing over 16 million pounds of cannabis per year. The 20 largest cultivation companies hold 2,232 licenses between them, totaling 515 acres and capable of producing over 2.6 million pounds of flower per year, or enough to supply the entire statewide market.

Despite this cultivation capacity, reporting from the California Department of Tax and Fee Administration (CDTFA) shows that only 2,4,000 pounds of cannabis entered the commercial market in 2021 (the last year for which data is available).

The cannabis cultivation market in California has far exceeded its saturation point, which suggests that there is not enough room for those growers already licensed, much less new entrants into the market. Over time, we anticipate a failure rate of 60% to 70% for cannabis cultivators, with the vast majority of those failures being among small, independent growers.

⁵ The actual number of distinct businesses is likely somewhat lower, as minor typos or inconsistencies in how a name is written appear as separate business names in the DCC database.

D. Fiscal Impacts and Fees

HdL has prepared this fiscal impact study to provide a general discussion of the County costs that may be associated with the permitting, regulatory monitoring and enforcement of cannabis businesses. This study is intended to inform decisions regarding the development of a cannabis regulatory and tax program by giving an overview of the types of costs that may be incurred, including those costs from exploration and development of the cannabis regulatory program, costs from a review and selection process for cannabis business applicants, land use entitlements and building permits, environmental review where necessary, regulatory monitoring, permit renewals, and any enforcement actions or appeals.

Along with generating revenues through a cannabis business tax, commercial cannabis businesses also bring certain costs to the host jurisdiction due to the staff time and other expenses associated with the permitting, regulation and enforcement of those businesses. In developing a cannabis regulatory program, cities and counties should anticipate these impacts and develop cost recovery fees adequate to cover all direct costs.

Recoverable costs may include, but are not limited to, any or all of the following:

- Costs associated with the development of a commercial cannabis regulatory program:
 - Initial outreach and exploration
 - Ordinance development
 - Environmental review
 - Meeting costs and development of staff reports and other materials
 - Consultant costs
 - Development of application procedures and guidelines
 - Development of appropriate fees
 - Development of regulatory protocols and administrative procedures
- Costs associated with the review and permitting of individual cannabis businesses:
 - Development of an RFP for cannabis businesses (if utilized)
 - Conducting application reviews and applicant interviews
 - Background checks
 - Land use permitting and entitlements, including CUP hearings if needed
 - Processing building permits
 - Pre-license inspections
 - Consultant costs associated with any of the above
- Costs associated with ongoing monitoring and permit renewals:
 - Regulatory compliance inspections (may be conducted annually or semi-annually)
 - Other routine inspections that may be required (environmental health, fire department, etc.)
 - Annual revenue audits to ensure proper reporting and remittance of taxes
 - Permit renewal processing
 - Program administration

- Costs associated with mitigating external impacts to the community or the environment:
 - Traffic impacts
 - Odor, noise or lighting impacts
 - Social or public health impacts, where a clear nexus can be established
- Costs associated with enforcement and appeals:
 - Regulatory enforcement of any findings of non-compliance
 - Processing and conducting any appeals of enforcement actions
 - Law enforcement actions where necessary

These various costs may be recovered through a variety of fees. In general, costs are assigned to the person or business entity that benefits from the service being provided by the agency. The beneficiary varies among the many policy development and regulatory activities described above. Development of the regulatory program benefits those who are allowed to operate a business that would otherwise be prohibited. Processing of applications and land use permits benefits the applicant or proposed business. The cost of monitoring existing businesses for compliance and processing permit renewals benefits the business as it allows them to continue to operate.

Fees are generally divided into a number of categories including initial application fees, permitting and land use entitlement fees, and annual permit renewal fees which may include costs for compliance inspections and annual revenue audits to ensure the business is reporting and remitting the proper portion of gross receipts. Each of these general categories may include a number of individual fees to cover distinct costs or services, not all of which would be applied in every case. These costs all vary from jurisdiction to jurisdiction, depending upon a variety of factors specific to each city or county.

Initial application fees can vary greatly depending upon the details of the application process required by the jurisdiction. Some cities or counties choose not to limit the number of cannabis businesses or to process applications on a “first-come, first-served” basis. Others may solicit applications for a limited number of permits, which will then be reviewed on either a quality assurance (pass/fail) basis or merit-based (high-low score) basis. Final selection of permittees may be done through either a discretionary process or via lottery, where permittees are chosen at random from a pool of all qualifying applicants.

Once applicants have been selected to move forward into the permitting process, the land use entitlement and building permit process is no different than it would be for other, similar businesses. The amount of County staff time (and thus the cost) may vary greatly depending upon the specific location, needed construction or tenant improvements and other building requirements.

Annual permit fees vary greatly from jurisdiction to jurisdiction, based upon the desired level of regulatory oversight and administration. Jurisdictions may require that businesses submit to one or more regulatory compliance inspections per year, as well as annual cannabis revenue audits to ensure the business is reporting and remitting the proper portion of gross receipts to the host city or county. In addition, some jurisdictions choose to place certain regulatory roles within law enforcement, which may include POST certified officers. This can greatly increase the cost for these regulatory services.

In the accompanying table we have provided the annual permit fees for 27 cities and counties from around California^{xiv}. The fees range from a high of \$147,645 for the City of San Jose to a low of just \$2,606 for Calaveras County. We note that the permit fees for some jurisdictions may vary depending upon the specific type of cannabis business. In such cases, the table displays the highest cost.

Among this sample set, the average annual permit fee is \$20,789 per year. However, this range is heavily skewed by the fees for the City of San Jose, which are more than three-times higher than the next highest fees. We regard this as an outlier as it is not otherwise representative of the overall range.

When we exclude the fees from the City of San Jose, the average annual permit fee among our sample set of California cities and counties comes down to \$16,076. We believe this lower figure is more representative.

Agency	Annual Permit Fee
San Jose	\$147,645
Davis	\$42,359
San Luis Obispo (City)	\$39,634
Chula Vista	\$31,275
Redwood City	\$29,530
Culver City	\$27,771
Placerville	\$22,841
Modesto	\$21,740
Sacramento (City)	\$20,800
San Diego (City)	\$20,803
Grover Beach	\$20,000
Vista	\$19,967
Oakland	\$16,676
Santa Ana	\$12,529
Goleta	\$11,879
Palm Springs	\$10,984
Salinas	\$9,854
Oceanside	\$8,511
Los Angeles (City)	\$9,735
Vallejo	\$8,288
Santa Barbara (County)	\$6,945
San Luis Obispo (County)	\$6,836
San Francisco	\$4,354
Monterey (County)	\$4,355
Santa Cruz (County)	\$4,000
Watsonville	\$3,700
Calaveras County	\$2,606
Average Annual Permit Fee:	\$20,789
Excluding San Jose as an Outlier:	\$16,076

These annual permit costs reflect the direct per-business cost for each jurisdiction to provide its desired level of regulatory oversight for permitted cannabis businesses, including regulatory monitoring and inspections, revenue audits, annual permit renewals and overall administration of its cannabis business regulatory and tax program.

E. References

-
- ⁱ <https://stories.opengov.com/sanpabloca/published/Okt-3C6oq>
- ⁱⁱ Andrew Sheeler “California marijuana growers would see tax relief under Gavin Newsom’s proposed budget” (May 13, 2022) Sacramento Bee, <https://www.sacbee.com/news/politics-government/capitol-alert/article261391172.html>
- ⁱⁱⁱ California Department of Public Health (2018) “*Medical Marijuana Identification Card Program*” <https://www.cdph.ca.gov/Programs/CHSI/Pages/MMICP-Monthly-Data.aspx>
- ^{iv} Avalara “*San Pablo, California sales tax rate*” (accessed April 10, 2023) <https://www.avalara.com/taxrates/en/state-rates/california/cities/san-pablo.html>
- ^v “*Economic Costs and Benefits of Proposed Regulations for the Implementation of the Medical Cannabis Regulation and Safety Act (MCRSA)*” (February 23, 2017) University of California Agricultural Issues Center
- ^{vi} “*Economic Costs and Benefits of Proposed Regulations for the Implementation of the Medical Cannabis Regulation and Safety Act (MCRSA)*” (February 23, 2017) University of California Agricultural Issues Center
- ^{vii} “*Economic Costs and Benefits of Proposed Regulations for the Implementation of the Medical Cannabis Regulation and Safety Act (MCRSA)*” (February 23, 2017) University of California Agricultural Issues Center
- ^{viii} Ross Marchant (2014) “*Consumers will Travel 17 Minutes to Reach a Local Business*” <https://www.brightlocal.com/2014/05/01/local-business-travel-times/> Bright Local
- ^{ix} Substance Abuse and Mental Health Services Administration 2019-2020 National Surveys on Drug Use and Health <https://www.samhsa.gov/data/release/2020-national-survey-drug-use-and-health-nsduh-releases>
- ^x Eli McVey, et al. (2017) “*Marijuana Business Factbook 2017*” Marijuana Business Daily
- ^{xi} Erick Eshker, Anthony Silvaggio, Josh Miesel et al. “*Standardized Regulatory Impact Assessment (SRIA) Proposed Regulations for Manufacturers of Medical Cannabis*” (February 1, 2017), Humboldt Institute for Interdisciplinary Marijuana Research, prepared for the California Department of Public Health
- ^{xii} Duncan McEwan, et al. “*Economic Impact Analysis of Medical Cannabis Cultivation Program Regulations*” ERA Economics LLC, Prepared for the California Department of Food and Agriculture, January 27, 2017
- ^{xiii} California Department of Tax and Fee Administration “*Cannabis Tax Reported Cultivation and Excise Revenue by Fiscal Year*” (Accessed January 10, 2022) <https://www.cdtfa.ca.gov/dataportal/dataset.htm?url=CannabisTaxCultivationExciseRevenue>
- ^{xiv} Lara Gates, Travis Cleveland (February 8, 2022) “*Proposed Cannabis Business Division Operations Fee*” City of San Diego Planning Department, [https://onbase.sandiego.gov/OnBaseAgendaOnline/Documents/ViewDocument/Staff%20Report%20for%20-%20%20\(\).pdf?meetingId=4859&documentType=Agenda&itemId=206488&publishId=548135&isSection=false](https://onbase.sandiego.gov/OnBaseAgendaOnline/Documents/ViewDocument/Staff%20Report%20for%20-%20%20().pdf?meetingId=4859&documentType=Agenda&itemId=206488&publishId=548135&isSection=false)