

# City of Salinas – Cannabis Taxation Recommendation Report



KYLE TANKARD, SENIOR CONSULTANT

SCI CONSULTING GROUP

AUGUST 23, 2022

# Overview of Salinas Cannabis Industry

---

- The City issues two types of commercial cannabis permits: Commercial Cannabis Permits (CCP) and Administrative Permits (AP)
  - CPPs are applicable to Cultivation, Delivery, Dispensary, Distribution, and Manufacturing (Capped at 23 permits)
  - APs applicable to Testing Laboratories, Small Distribution (premise under 500 sqft), Research and Development Facilities, and Nurseries

# Commercial Cannabis Permit Status

---

- The City has issued 21 permits out of a total of 23
  - 11 operational businesses
  - 10 businesses working on land use entitlements or building permits

Business Type	Permit Quota	Active Permits	Operational Businesses
Cultivation	5	3	1
Delivery	3	3	3
Dispensary	5	5	3
Distribution	5	5	2
Manufacturing	5	5	2
<b>Total</b>	<b>23</b>	<b>21</b>	<b>11</b>

# Cannabis Business Tax (SMC Chapter 19A)

---

- Cannabis Business Tax effective January 1, 2017
  - Tax imposed on Retail (Dispensary & Delivery), Cultivation (including Nurseries), and Manufacturing
  - Council voted to forgo scheduled tax increase under SMC Sec. 19A.10.070 (December 2019)

Business Type	Current Rate	Maximum Rate
<b>Retail (Dispensary)</b>	5% of Gross Receipts	10% of Gross Receipts
<b>Retail Delivery</b>	5% of Gross Receipts	10% of Gross Receipts
<b>Manufacturing</b>	5% of Gross Receipts	10% of Gross Receipts
<b>Cultivation</b>	\$15/sf of Canopy	\$25/sf of Canopy
<b>Nursery</b>	\$2/sf of Canopy	\$5/sf of Canopy
<b>Distribution</b>	No Tax	No Tax
<b>Testing</b>	No Tax	No Tax

# Tax Revenue (2017-2022)

---

- \$7.5 million in tax revenue since 2017
  - Tax revenues have increased each year, but are beginning to flatten out
  - Tax revenues are on a projection to decrease in 2022

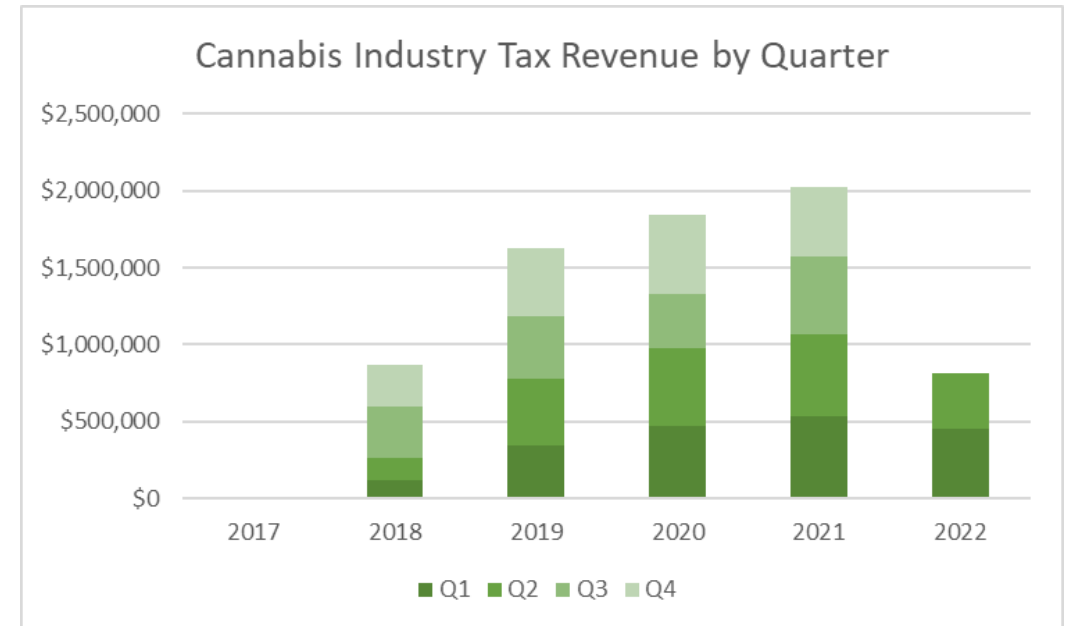
Year	Q1	Q2	Q3	Q4	TOTAL	+ / -
<b>2017</b>					\$374,369	
<b>2018</b>	\$120,737	\$143,839	\$328,894	\$276,979	\$870,449	133%
<b>2019</b>	\$343,833	\$432,000	\$409,701	\$442,779	\$1,628,314	87%
<b>2020</b>	\$470,916	\$503,765	\$357,502	\$509,849	\$1,842,033	13%
<b>2021</b>	\$536,363	\$525,501	\$514,153	\$449,941	\$2,025,958	10%
<b>2022</b>	\$448,552	\$362,404			\$810,956	

Q = Quarter (three month period)

# Tax Revenue (2022)

---

- Through two quarters in 2022:
  - Tax revenues are down 16% compared to the previous two quarters
  - Four businesses late on 2022 Q2 tax payments



# California Cannabis Industry

---

- Significant growth in the regulated cannabis industry since 2016, but has fallen short of initial projections
  - State tax revenues are down in 2022
- Key industry challenges:
  - High fees, taxes, and regulatory burdens
  - Robust illegal market is undercutting regulated market sales
  - Oversupply of cultivated cannabis and the lack of retail locations statewide has resulted in the collapse of wholesale cannabis prices

# Changes to State Tax Structure

---

- 15% excise tax on retail cannabis purchases
- Cultivation tax of \$10.08 per ounce
- Assembly Bill 195 (June 2022):
  - Effective July 1, 2022, the cultivation tax has been eliminated
  - Excise tax maintained at 15% for next three years
  - Excise tax can be increased up to 19% in 2025



# Local Tax Structure

---

- High local tax rates common during early years of legalization and regulation
  - Acceptable amongst cannabis industry when profit margins were high
- Local tax rates trending downward as:
  - Local governments recognize the need for tax relief
  - Matching of tax rates by neighboring jurisdictions

# Local Cannabis Tax Rates

---

	Cultivation	Nursery	Manufacture	Distributor	Testing	Retail
<b>Hollister</b>	\$7/sf	5%	5%	5%	5%	5%
<b>Marina</b>	5%	5%	5%	5%	5%	5%
<b>Merced</b>	2.5%	2.5%	\$2.50/sf	2%	\$0/sf	7%
<b>Monterey<sup>1</sup></b>	2%	2%	2%	2%	1%	4%
<b>Pacific Grove<sup>1</sup></b>	NA	NA	NA	NA	NA	6%
<b>Salinas</b>	\$15/sf	\$2/sf	5%	NA	NA	5%
<b>Santa Cruz</b>	7%	7%	7%	2%	1%	7%
<b>Seaside</b>	2%	2%	2%	2%	2%	6%
<b>Watsonville</b>	\$10/sf	\$1/sf	2.5%	NA	NA	5%

<sup>1</sup> Measures on November 2022 General Election

# Taxation Recommendations

---

- Maintain the existing gross receipts tax rate of 5% on retail businesses
- Reduce the existing tax to a rate between 2.5% and 3% on manufacturing businesses
- Reduce the existing tax to a rate between \$7 to \$10 per square foot of canopy on cultivation businesses.

# Permitting Recommendations

---

- Maintain the current limit on the number of retail businesses (3 delivery and 5 storefront)
- Award the final cultivation permit
- Continue to support active permittees working towards becoming operational businesses

# Economic Development Recommendations

---

- Take steps to foster and support growth in the manufacturing business sector, which has the greatest growth potential
- Continue to carefully facilitate the transition from unregulated cannabis markets to regulated cannabis businesses
- Work on expanding cannabis opportunities to minority owned, local businesses.
- Expand on Salinas' unique history, character, and culture to optimize all facets of the cannabis industry.