

Exhibit 2: Powerpoint Presentation

Cannabis Business Tax Framework

Cannabis Business Taxation Framework

A proposal for Board consideration and request for final direction to staff in preparation for an ordinance and ballot measure.

May 8, 2018

Today's Discussion

LANDSCAPE

- Benefits and considerations of cannabis business taxation
- State taxation of cannabis
- Local agency authority to tax cannabis
- Pending legislation that may affect County's proposed cannabis program
- Key elements of a cannabis business tax ordinance

POLICY ISSUES/DISCUSSION

- Tax policy questions to consider
- Tax Programs of neighboring jurisdictions
- HdL tax proposals for consideration
- Tax administration and policy discussion, and Board direction to staff
- Next steps

Benefits and Considerations

Benefits:

- Ensure that businesses pay their fair share to protect public safety and protect the county's natural areas and water quality
- Raise revenue to cover increased costs associated with cannabis sales that are not recoverable with fees (e.g. public safety, health services costs, tax administration, responding to the unregulated or illegal market)
- Raise revenue for other countywide programs with locally-controlled funding

Considerations:

- Determining the level of taxation to effectively recover costs of administering the tax and enforcing the unregulated market
- Consistency with other jurisdictions so as not to overtax this emerging industry
- Cash-heavy collections

State Taxation of Cannabis

State Taxes Enacted By Proposition 64 / SB 94:

- 15% excise tax on retail sales (medicinal and adult use)
- \$9.25 per ounce tax on flowers paid by cultivators
- \$2.75 per ounce tax on leaves paid by cultivators
- \$1.29 per ounce tax on fresh cannabis plants paid by cultivators

Retail sales for recreational cannabis also subject to existing sales & use tax (currently 8.25% in Unincorporated Contra Costa County)

Local Agency Authority to Tax Cannabis and Charge Fees

- Board authority under MCRSA for local jurisdictions to assess fees and taxes over cannabis businesses licensed under the law.
- Local taxes are subject to a vote of the people, passing with a simple majority for a general tax and a supermajority for a special tax.
- Local agencies are authorized to recover costs of implementing a cannabis licensing and regulatory program (permitting and inspections) through fees. Staff intends to bring updates to fee schedules to the Board in Fall 2018.
- Taxes may be used to pay for other associated costs borne by an agency that are not directly attributable to services provided to a permittee.

Pending Cannabis Legislation and Interpretation

- [SB 930](#) would license special banks to handle billions of dollars generated by the legal marijuana market, allowing licensed cannabis businesses to issue certified checks and conduct payroll, pay their state and local taxes and fees, pay their rent, etc.
- [SB 1302](#) would require deliveries to be allowed in the County by amending B&P Code 26200.
- [AB 3157](#) would reduce the State excise tax rate to 11% until June 1, 2021, at which time the excise tax rate would revert back to 15%, and would suspend the imposition of the cultivation tax until June 1, 2021.
- [Rescission of Cole Memo](#) – Uncertainty remains regarding federal scrutiny of marijuana-legal states, but appears to leave enforcement of federal laws up to state prosecutors.
- [H.R. 4779](#), a.k.a. The REFER Act, to restrict funds and prohibit the federal government from punishing canna-businesses operating in compliance with state laws
- [H.R. 1227](#), a.k.a. The Ending Federal Marijuana Prohibition Act, to remove cannabis from the Controlled Substances Act (CSA)
- [H.R. 975](#), a.k.a. The Respect State Marijuana Laws Act, to bar the CSA from applying to cannabis, as long as the party in question complies with state law
- [S. 1689](#), a.k.a. The Marijuana Justice Act, to end federal cannabis prohibition, cut law enforcement funding for states with racially disproportionate cannabis arrests, and establish a \$500 million "community reinvestment fund" to repair the damage of the Drug War
- [The Rohrabacher-Blumenauer amendment](#), which prevents the Department of Justice from spending money to go after medical marijuana, and the [McClintock-Polis amendment](#) to do the same for adult-use marijuana
- [Schumer bill](#) – would remove marijuana from the list of federally controlled substances.

Proposed Tax Fairness, Transparency and Accountability Act of 2018 (TFTA)

- Has obtained the necessary signatures to qualify for the November 2018 statewide ballot
- Would change the voting requirement for general taxes - increasing it to 2/3 approval
- Local tax measures passed in 2018 would be void unless they complied with the ballot requirements of the measure and obtained a 2/3 affirmative vote
- Would expand the definition of taxes to include some charges that state and local governments currently treat as nontax levies
- Would require that increased fees and other charges be approved by either a 2/3 vote of a local governing body in the case of local government fees or a 2/3 vote of the electorate in the case of local citizen initiative fees
- Regulatory fees and fees charged for a government service or product would have to more closely approximate the payer's actual costs in order to remain fees
- Generally, would require tax measures to be consolidated with the general elections
- Fees and other charges levied by a local governing body may be overturned via referenda

Key Elements of a Cannabis Business Tax Ordinance

1. Definitions		
2. Taxes	Initial Rates & Maximum Rates	BOS increase rates & CPI adjustments
3. Quarterly Reporting and Remittance to Tax Administrator	Tax Administrator	
4. Penalties for Late Payment and Returns, and Refunds	Tax Administrator	
5. Administration	Tax Administrator	
6. Audit and Assessment	Tax Administrator	
7. Appeal Procedure	Tax Administrator	Board of Supervisors
8. Enforcement	Zoning, Environmental Health, Tax, Crime, Ag/Weights & Measures	

Tax Policy Questions

Areas of Consensus

When the Board received the presentation of HdL's fiscal analysis last October, there appeared to be consensus among the Board members on the following:

- Regulatory Program contingent on passage of a tax measure
- A general tax (4/5 BOS vote & 50%+1 vote, subject to TFTA should it pass), as opposed to a special tax (2/3 vote)
- A County Unincorporated Area tax, as opposed to a countywide tax
- Taxing medicinal and non-medicinal businesses the same
- Taxing all cannabis activities except testing, at least initially

Tax and Administrative Policy Questions Still to Be Determined

1. Will the Board base cultivation tax on canopy size (s/f) or gross receipts (\$\$)?
2. If the Board taxes cultivation based on canopy size, will it be the maximum canopy permitted or only on the cultivated area per quarter?
3. At what rate(s) will the Board tax cannabis businesses: Level of taxation for each activity within the supply chain.
 - a) Maximum taxing authority vs. initial taxes levied?
 - b) Phase in taxes over time and at what rate?
 - c) Surcharge and interest penalties for delinquent payments?
4. Does the Board want to do outreach to, and tax enforcement of, known unregulated cannabis businesses?
5. Tax appeal process: Shall the Tax Administrator's decision be final or shall there be a second level of appeal to the Board of Supervisors?
6. Will the Board appropriate revenue to cover department costs not recoverable through fees?

General Principles and Suggestions for Taxation Program

- Should be set high enough to produce sufficient revenues to offset the cost of administering the tax and enforcing the illegal market.
- Should be set low enough to not unduly burden the emerging industry or divert businesses to other counties or illegal markets.
- Industry experts recommend a cumulative tax burden not to exceed 30%.
- May want to consider incentivizing activities that are desirable and in short supply in our county.
- May want to consider a lower initial rate and then index the rate to increase over time; or
- May want to set a minimum and maximum tax rate to allow flexibility to respond to changing market and economy.

Question 1:

Taxing Cannabis Cultivation: Land Use Activity / Per S/F

COUNTY

PROS

- Predictable, stable level of tax revenue
- Simpler to calculate and administer
- Tax revenue indexed to proportional impact of land use

CONS

- Tax revenue is capped

CULTIVATOR

PROS

- Known, fixed cost for cultivator
- Tax liability is capped

CONS

- Not sensitive to crop yield, product quality, wholesale price, or environmental factors

Question 1:

Taxing Cannabis Cultivation: Based on Gross Receipts

COUNTY

PROS

- No cap on tax revenue

CONS

- Cyclical revenue stream/uneven cash flow
- More difficult to assess tax on non-permitted cultivators
- No floor on tax revenue
- Greater risk of lost tax revenue due to under-reporting

CULTIVATOR

PROS

- Sensitive to crop yield, product quality, wholesale price, and environmental factors

CONS

- Tax liability increases with productivity even if the canopy area hasn't changed
- Tax is on gross receipts, not on actual profit

Question 2:

Taxing Cultivation Based on Canopy Size - Permitted Canopy or Cultivated Canopy

PERMITTED CANOPY

PROS

- Predictable, stable level of tax revenue and liability
- Simpler to calculate and administer

CONS

- Not sensitive to crop size
- Does not account for unutilized space

CULTIVATED CANOPY

PROS

- Sensitive to crop size
- Accounts for unutilized space

CONS

- Tax revenue subject to fluctuation depending on crop size
- May require inspection / validation to calculate and administer

Question 3: Tax Rates and Penalties

HdL Proposed Cannabis Business Tax Levy

License Type	Initial Rate	Maximum Rate
Cultivator: Indoor, artificial lighting	\$7/ft ²	\$10/ft ²
Cultivator: Greenhouse, mixed lighting	\$4/ft ²	\$7/ft ²
Cultivator: Outdoor, natural light	\$2/ft ²	\$4/ft ²
Cultivator: Nursery	\$1/ft ²	\$2/ft ²
Manufacturing/Non-retail microbusiness	2.5% of gross receipts	4% of gross receipts
Testing	NA	2.5% of gross receipts
Distribution	2% of gross receipts	3% of gross receipts
Retailer/Retail microbusiness	4% of gross receipts	6% of gross receipts

Question 3:

HdL Proposed Penalties for Delinquencies, Returns & Fraud

Penalties for Non Payment	Surcharge on Tax	Monthly Interest*
One month or less late	10%	1%
More than one month late	35%	1%
Fraud, at any point	25%	1%

*Note: County's current delinquent (secured and unsecured) property tax interest penalty is 1½ % per month.

Question 3:

What Neighboring Counties Have Done or Plan to Do

Calaveras County Cannabis Business Tax (General Tax, UI Area)

License Type	Rate
Cultivator: Indoor, artificial lighting	\$70/lb of dry weight flower and bud and \$10/lb of dry weight trim.
Cultivator: Greenhouse, mixed lighting	
Cultivator: Outdoor, natural light	\$45/lb of dry weight flower and bud and \$10/lb of dry weight trim.
Cultivator: Nursery	NA
Manufacturing/Non-retail microbusiness	NA
Distribution	NA
Retailer/Retail microbusiness	7% of gross receipts

Monterey County Cannabis Business Tax (General Tax, UI Area)

License Type	Rate*
Cultivator: Indoor, artificial lighting	\$15/ft ² , increasing \$5/yr up to \$25, then adjusted by CPI
Cultivator: Greenhouse, mixed lighting	
Cultivator: Outdoor, natural light	
Cultivator: Nursery	\$2/ft ²
Manufacturing/Non-retail microbusiness	5% of gross receipts, increasing 2.5%/yr up to 10%
Distribution/Testing	
Retailer/Retail microbusiness	

*Note: Monterey County is considering decreasing these rates to the rates currently proposed by HdL for Contra Costa County.

San Joaquin County Cannabis Business Tax (Special Tax, UI Area, Nov. 2018 ballot)

License Type	Rate
Cultivator: Indoor, artificial lighting	Special tax ranging from 3.5% to 8% of gross annual income on commercial cannabis businesses and cultivation within the county's unincorporated areas. It would also impose an annual fee of \$2 per square foot of licensed cultivation space, should the county decide to lift the ban on cannabis businesses or cultivation in the future.
Cultivator: Greenhouse, mixed lighting	
Cultivator: Outdoor, natural light	
Cultivator: Nursery	
Manufacturing/Non-retail microbusiness	
Distribution/Testing	
Retailer/Retail microbusiness	

Santa Cruz County Cannabis Business Tax

Medicinal Only

(General Tax, UI Area)

License Type	Rate
Cultivator: Indoor, artificial lighting	5% of gross receipts, increasing by 1%/yr up to 7%
Cultivator: Greenhouse, mixed lighting	
Cultivator: Outdoor, natural light	
Cultivator: Nursery	NA
Manufacturing/Non-retail microbusiness	5% of gross receipts, increasing by 1%/yr up to 7%
Distribution	7% of gross receipts
Retailer/Retail microbusiness	7% of gross receipts

Solano County Cannabis Business Tax (General Tax, Countywide)

License Type	Rate
Cultivator: Indoor, artificial lighting	15% of gross receipts; However, cannabis business is currently banned.
Cultivator: Greenhouse, mixed lighting	
Cultivator: Outdoor, natural light	
Cultivator: Nursery	
Manufacturing/Non-retail microbusiness	
Distribution	
Retailer/Retail microbusiness	

Sonoma County Cannabis Business Tax (General Tax, UI Area)

License Type	Rate
Cultivator: Indoor, artificial lighting	\$3.75-\$11.25/ft ²
Cultivator: Greenhouse, mixed lighting	\$2.25-\$6.50/ft ²
Cultivator: Outdoor, natural light	\$1-\$2/ft ²
Cultivator: Nursery	NA
Manufacturing/Non-retail microbusiness	3% of gross receipts
Distribution	NA
Retailer/Retail microbusiness	2% of gross receipts

Neighboring Cities Cannabis Business Tax

City	Local Tax Rate	Cannabis Tax
Pittsburg	8.75%	10% of gross receipts
Richmond	9.25%	5% of gross receipts
Berkeley	9.25%	Medicinal Cannabis: 2.5% of gross receipts Adult-Use Cannabis : 5% gross receipts (lowered from 10%)
Oakland	9.25%	Medicinal Cannabis: 5% of gross receipts Adult-Use Cannabis: 10% of gross receipts
Hayward	9.75%	15% of gross receipts
Vallejo	8.38%	10% of gross receipts
Sacramento	8.25%	4% of gross receipts

Question 3: Cumulative Tax Analysis for Maximum Tax Levy

Total Tax of 29%

Cultivation:

No artificial lighting 1.00% or \$ 4/ft²

Mixed lighting 1.75% or \$ 7/ft²

Artificial lighting: 2.50% or \$10/ft²

Testing: 2.5%

Manufacture: 4.0%

Distribution: 3.0%

Retail/Delivery: 6.0%

Cumulative Cannabis Taxes-HdL Companies			
Category	Amount	Increase	Cumulative Price
Producer Price	\$1,000	\$1,000	\$1,000
State Cultivation Tax	\$9.25/oz	\$148	\$1,148
Local Tax	3.00%	\$30	\$1,178
Wholesale Price w/ Taxes		\$1,178	
Total Tax at Wholesale		\$178	
Tax as %		17.80%	
Testing Cost/Revenue	\$50/lb	\$50	\$1,228
Local Tax	2.50%	\$1	\$1,229
Total Testing Price		\$1,229	
Total Taxes at Testing		\$179	
Total Tax as %		14.58%	
Manufacturer Markup	20.00%	\$246	\$1,475
Local Tax	4.00%	\$59	\$1,534
Total Manufacturer Price		\$1,534	
Total Taxes at Manufacturer		\$238	
Total Tax as %		15.53%	
Distributor Markup	30.00%	\$460	\$1,994
Local Tax	3.00%	\$60	\$2,054
Total Distributor Price		\$2,054	
Total Taxes at Distributor		\$298	
Total Tax as %		14.51%	
Retailer Markup	100.00%	\$2,054	\$4,108
Local Tax	6.00%	\$246	\$4,355
State Excise Tax	15.00%	\$616	\$4,971
Total Retailer Price		\$4,971	
Total Taxes at Retail		\$1,161	
Total Tax as %		23.35%	
CA Sales Tax	7.25%	\$360	\$5,331
Local Sales Tax	1.00%	\$50	\$5,381
Total Taxes at Retail		\$1,571	
Total Tax as %		29.19%	
Total Local Tax		8.29%	\$446.29

Question 3: Cumulative Tax Analysis For Initial Tax Levy

Total Tax of 28%

Cultivation:

No artificial lighting 0.50% or \$2/ft²

Mixed lighting 1.00% or \$4/ft²

Artificial lighting: 1.75% or \$7/ft²

Manufacture: 2.5%

Distribution: 2.0%

Retail/Delivery: 4.0%

Cumulative Cannabis Taxes-HdL Companies			
Category	Amount	Increase	Cumulative Price
Producer Price	\$1,000	\$1,000	\$1,000
State Cultivation Tax	\$9.25/oz	\$148	\$1,148
Local Tax	1.75%	\$18	\$1,166
Batch Testing	\$50/lb, + 0.50%	\$55	\$1,221
Wholesale Price w/ Taxes		\$1,221	
Total Tax at Wholesale		\$221	
Tax as %		22.05%	
Manufacturer Markup	20.00%	\$244	\$1,465
Local Tax	2.5%	\$37	\$1,501
Total Manufacturer Price		\$1,501	
Total Taxes at Manufacturer		\$257	
Total Tax as %		17.13%	
Distributor Markup	30.00%	\$450	\$1,952
Local Tax	2.0%	\$39	\$1,991
Total Distributor Price		\$1,991	
Total Taxes at Distributor		\$296	
Total Tax as %		14.88%	
Retailer Markup	100.00%	\$1,991	\$3,981
Local Tax	4.0%	\$159	\$4,140
State Excise Tax	15.00%	\$597	\$4,738
Total Retailer Price		\$4,738	
Total Taxes at Retail		\$1,053	
Total Tax as %		22.22%	
CA Sales Tax	7.25%	\$343	\$5,081
Local Sales Tax	1.0%	\$47	\$5,129
Total Taxes at Retail		\$1,443	
Total Tax as %		28.15%	
Total Local Tax		5.85%	\$299.77

Question 3: Estimated Cultivation Tax Revenue - Permitted Canopy (Sq. Ft.) Calculation*

Cultivation Type	Harvest Cycles/Yr	Permitted Area	Canopy @ 75%	Crop Yield	Gross Receipts	Tax / sf	Annual Tax Paid	# of Permits	Total Tax Revenue
Outdoor	1	43,560	32,670	3,267	\$ 2,613,600	\$ 2	\$ 87,120	2	\$ 174,240
Mixed Light	3	22,000	16,500	4,950	\$ 3,960,000	\$ 4	\$ 88,000	4	\$ 352,000
Indoor	4	22,000	16,500	8,250	\$ 8,250,000	\$ 7	\$ 154,000	4	\$ 616,000
							\$ 329,120	10	\$ 1,142,240
Cultivation Type	Harvest Cycles/Yr	Permitted Area	Canopy @ 75%	Crop Yield	Gross Receipts	Tax / sf	Annual Tax Paid	# of Permits	Total Tax Revenue
Outdoor	1	43,560	32,670	3,267	\$ 2,613,600	\$ 4	\$ 174,240	2	\$ 348,480
Mixed Light	3	22,000	16,500	4,950	\$ 3,960,000	\$ 7	\$ 154,000	4	\$ 616,000
Indoor	4	22,000	16,500	8,250	\$ 8,250,000	\$ 10	\$ 220,000	4	\$ 880,000
							\$ 548,240	10	\$ 1,844,480

*Note that none of these figures account for attrition. HdL has modeled attrition at 5% of revenue for each 1% of tax rate. A cap on the number of permits may effectively reduce attrition.

Question 3: Estimated Cultivation Tax Revenue - Cultivated Canopy (Sq. Ft.) Calculation*

Cultivation Type	Harvest Cycles/Yr	Permitted Area	Canopy @ 75%	Crop Yield	Gross Receipts	Tax / sf	Annual Tax Paid	# of Permits	Total Tax Revenue
Outdoor	1	43,560	32,670	3,267	\$ 2,613,600	\$ 2	\$ 65,340	2	\$ 130,680
Mixed Light	3	22,000	16,500	4,950	\$ 3,960,000	\$ 4	\$ 66,000	4	\$ 264,000
Indoor	4	22,000	16,500	8,250	\$ 8,250,000	\$ 7	\$ 115,500	4	\$ 462,000
							\$ 246,840	10	\$ 856,680
Cultivation Type	Harvest Cycles/Yr	Permitted Area	Canopy @ 75%	Crop Yield	Gross Receipts	Tax / sf	Annual Tax Paid	# of Permits	Total Tax Revenue
Outdoor	1	43,560	32,670	3,267	\$ 2,613,600	\$ 4	\$ 130,680	2	\$ 261,360
Mixed Light	3	22,000	16,500	4,950	\$ 3,960,000	\$ 7	\$ 115,500	4	\$ 462,000
Indoor	4	22,000	16,500	8,250	\$ 8,250,000	\$ 10	\$ 165,000	4	\$ 660,000
							\$ 411,180	10	\$ 1,383,360

*Note that none of these figures account for attrition. HdL has modeled attrition at 5% of revenue for each 1% of tax rate. A cap on the number of permits may effectively reduce attrition.

Question 3: Estimated Cultivation Tax Revenue - Gross Receipts (\$\$) Calculation*

Cultivation Type	Harvest Cycles/Yr	Permitted Area	Canopy @ 75%	Crop Yield	Gross Receipts	Tax / GR	Annual Tax Paid	# of Permits	Total Tax Revenue
Outdoor	1	43,560	32,670	3,267	\$ 2,613,600	2%	\$ 52,272	2	\$ 104,544
Mixed Light	3	22,000	16,500	4,950	\$ 3,960,000	2%	\$ 79,200	4	\$ 316,800
Indoor	4	22,000	16,500	8,250	\$ 8,250,000	2%	\$ 165,000	4	\$ 660,000
							\$ 296,472	10	\$ 1,081,344
Cultivation Type	Harvest Cycles/Yr	Permitted Area	Canopy @ 75%	Crop Yield	Gross Receipts	Tax / GR	Annual Tax Paid	# of Permits	Total Tax Revenue
Outdoor	1	43,560	32,670	3,267	\$ 2,613,600	3%	\$ 78,408	2	\$ 156,816
Mixed Light	3	22,000	16,500	4,950	\$ 3,960,000	3%	\$ 118,800	4	\$ 475,200
Indoor	4	22,000	16,500	8,250	\$ 8,250,000	3%	\$ 247,500	4	\$ 990,000
							\$ 444,708	10	\$ 1,622,016
Cultivation Type	Harvest Cycles/Yr	Permitted Area	Canopy @ 75%	Crop Yield	Gross Receipts	Tax / GR	Annual Tax Paid	# of Permits	Total Tax Revenue
Outdoor	1	43,560	32,670	3,267	\$ 2,613,600	4%	\$ 104,544	2	\$ 209,088
Mixed Light	3	22,000	16,500	4,950	\$ 3,960,000	4%	\$ 158,400	4	\$ 633,600
Indoor	4	22,000	16,500	8,250	\$ 8,250,000	4%	\$ 330,000	4	\$ 1,320,000
							\$ 592,944	10	\$ 2,162,688

*Note that none of these figures account for attrition. HdL has modeled attrition at 5% of revenue for each 1% of tax rate. A cap on the number of permits may effectively reduce attrition.

Question 3: Estimated Tax Revenue

Assumptions:

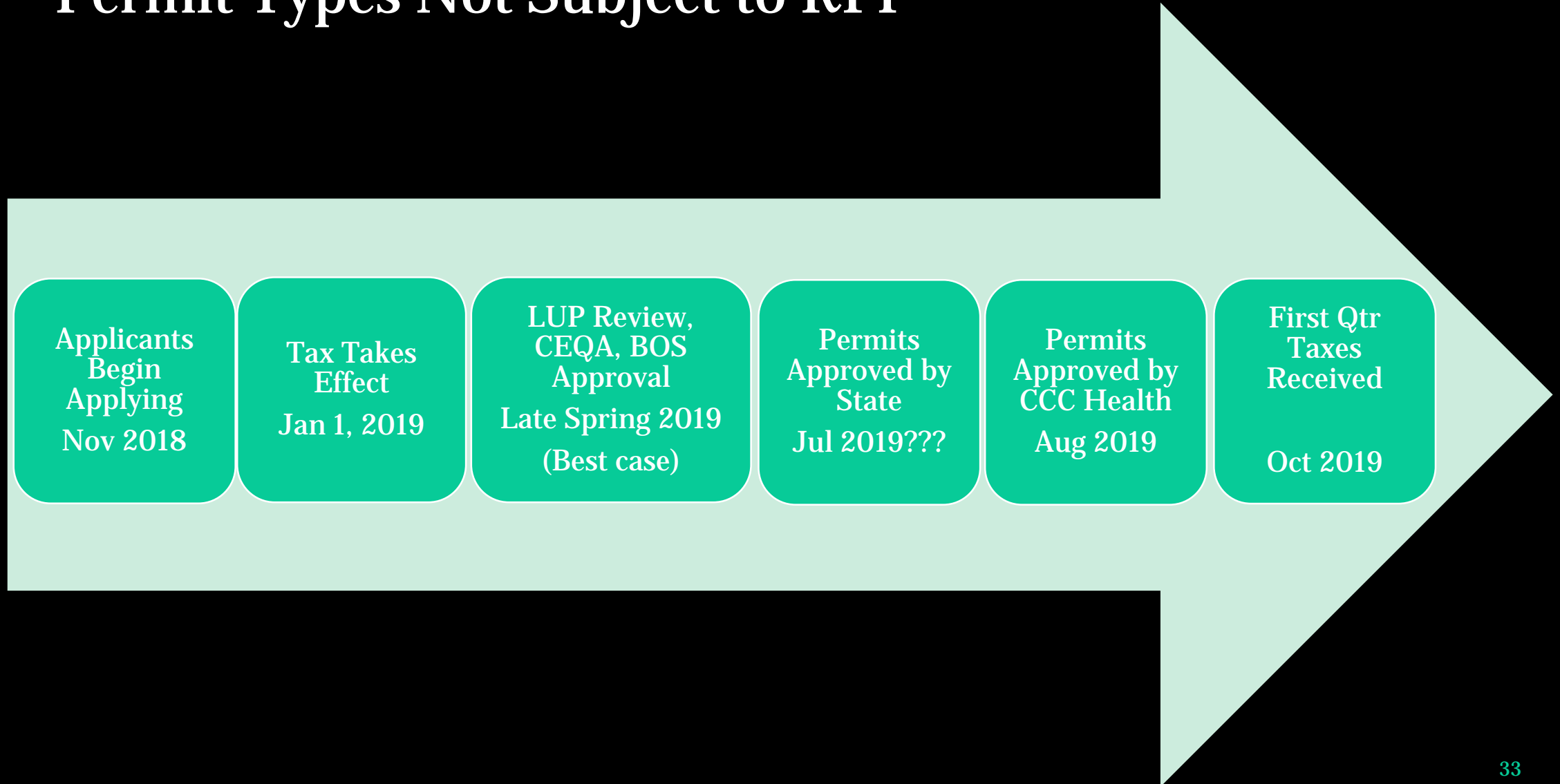
- Canopy/Square footage taxes based on average canopy area (75%), not total permitted area.
- Assumes productivity of 1 pound per 10 sf for outdoor and mixed light, 1.25 pounds per 10 sf for indoor
- Assumes average value of \$800/lb for outdoor and mixed light, \$1,000 pound for indoor
- Assumes outdoor cultivators are yielding 1 harvest cycle per year

CULTIVATION CANOPY @ 75%	OUTDOOR	MIXED LIGHT	INDOOR
	(10 permits)		
Initial Rate (2/4/7)	\$130,680	\$264,000	\$462,000
Step-Up Rate (3/5/8)	\$196,020	\$330,000	\$528,000
Maximum Rate (4/7/10)	\$261,360	\$462,000	\$660,000
MANUFACTURING	LOW END (5 permits)	MIDDLE (10 permits)	HIGH END (15 permits)
2.50% of \$2.5M	\$312,500	\$625,000	\$937,500
3.25% of \$2.5M	\$406,250	\$812,500	\$1,218,750
4.00% of \$2.5M	\$500,000	\$1,000,000	\$1,500,000
TESTING LABS	LOW END (1 permit)	MIDDLE (2 permits)	HIGH END (3 permits)
0.00% of \$1M	\$0	\$0	\$0
1.25% of \$1M	\$12,500	\$25,000	\$37,500
2.50% of \$1M	\$25,000	\$50,000	\$75,000
DISTRIBUTION	LOW END (1 permit)	MIDDLE (2 permits)	HIGH END (3 permits)
2.00% of \$2.5M	\$50,000	\$150,000	\$250,000
2.50% of \$2.5M	\$62,500	\$187,500	\$312,500
3.00% of \$2.5M	\$75,000	\$225,000	\$375,000
RETAIL & RETAIL/DELIVERY	(4 permits)		
4.00% of \$2.5M	\$400,000	\$400,000	\$400,000
5.00% of \$2.5M	\$500,000	\$500,000	\$500,000
6.00% of \$2.5M	\$600,000	\$600,000	\$600,000
RETAIL/DELIVERY ONLY Capped at 4	LOW END (3 permits)	MIDDLE (5 permits)	HIGH END (8 permits)
4.00% of \$1M	\$120,000	\$200,000	\$320,000
5.00% of \$1M	\$150,000	\$250,000	\$400,000
6.00% of \$1M	\$180,000	\$300,000	\$480,000
AGGREGATE TOTALS	LOW END Avg s/f	MIDDLE Avg s/f	HIGH END Max s/f
Initial Rate	\$ 1,739,180	\$ 2,231,680	\$ 2,764,180
Step-Up Rate	\$ 2,185,270	\$ 2,829,020	\$ 3,522,770
Maximum Rate	\$ 2,763,360	\$ 3,558,360	\$ 4,413,360

Rough Estimate of Tax Revenue Timeline – Permit Types Subject to RFP



Rough Estimate of Tax Revenue Timeline – Permit Types Not Subject to RFP



Question 4: Ramifications of Unregulated Cannabis Businesses in a Regulated Market

- CA regulated market is already saturated, producing far more marijuana than is consumed in the state
- Violent crime and gang activity connected to some illegal grows
- Fire hazard and environmental damage associated with some illegal grows
- Dual market undercuts regulated market
- Greater risk of providing access to youth

Question 4:

Enforcement of Cannabis Laws

- Compliance monitoring and mandatory inspection of permitted businesses
- Enforcement of zoning and health codes
- Tax assessment/levy on non-permitted businesses
- Tax penalties/liens for non-payment of taxes
- Raids and asset seizure
- Civil and criminal prosecution

Question 5:

Suggested Tax Appeal Process

Level 1: Administrative Hearing before the Treasurer-Tax Collector (TTC)

- Hearing request within 15 days of receiving notice of taxes due
- TTC to hold hearing, with notice, within 35 days of request
- Written notice of TTC decision

Level 2: Hearing before the Board of Supervisors

- Hearing request within 15 days of receiving final decision of TTC
- Clerk of the Board shall schedule hearing and give written notice
- Board decision shall be final and conclusive

Question 6: Costs That May Be Covered With Cannabis Permit Fee/Business License

- Zoning and Health Permit processing and administration
- Required inspections and compliance monitoring of regulated businesses
- Agriculture/Weights and Measures inspections
- Business License processing and administration
- Levy and collection of business taxes
- Audit of regulated cannabis businesses

Question 6: Cannabis Activities Not Supported by Fees

- Code enforcement response to unpermitted activities and neighborhood complaints, including regarding personal cultivation
- Sheriff response to increased criminal activity and neighborhood complaints
- Investigation of illegal cannabis businesses
- Sheriff security for County regulators and Tax Administrator during cannabis inspections
- Investigation of environmental damage (unravel LLC companies to determine who is responsible for cleanup costs following environmental damage)
- Eradication of environmentally damaging illegal marijuana farms
- Fire suppression and investigation
- Seeking payments for environmental cleanup and mitigation
- Youth substance abuse education and treatment programs
- Outreach and tax levy to known cannabis businesses operating illegally
- Cannabis tax appeal process

Question 6: Treasurer-Tax Collector Concerns with Administering the Cannabis Tax

- Security: Public and staff safety with large cash deposits
- Auditing: Unique expertise TTC does not have on hand
- Appeal: TTC discretion in assessments and BOS final say
- Enforcement: Taxing illegal operations, Sheriff assistance, penalties/interests, lien

Tax and Administrative Policy Questions

Board Direction Requested

1. Will the Board base cultivation tax on canopy size (s/f) or gross receipts (\$\$)?
2. If the Board taxes cultivation based on canopy size, will it be the maximum canopy permitted or only on the cultivated area per quarter?

Tax and Administrative Policy Questions

Board Direction Requested

3. At what rate(s) will the Board tax cannabis businesses: Level of taxation for each activity within the supply chain.
 - a) Maximum taxing authority vs. initial taxes levied?
 - b) Phase in taxes over time and at what rate?
 - c) Surcharge and interest penalties for delinquent payments?

Tax and Administrative Policy Questions Board Direction Requested

4. Does the Board want to do outreach to, and tax enforcement of, known unregulated cannabis businesses?

- Letters/warnings
- Tax levy
- Tax penalties/lien
- Asset seizure

Tax and Administrative Policy Questions

Board Direction Requested

5. Tax appeal process: Shall the Tax Administrator's decision be final or shall there be a second level of appeal to the Board of Supervisors?

Level 1: Administrative Hearing before the Treasurer-Tax Collector (TTC)

- Hearing request within 15 days of receiving notice of taxes due
- TTC to hold hearing, with notice, within 35 days of request
- Written notice of TTC decision

Level 2: Hearing before the Board of Supervisors

- Hearing request within 15 days of receiving final decision of TTC
- Clerk of the Board shall schedule hearing and give written notice
- Board decision shall be final and conclusive

Tax and Administrative Policy Questions

Board Direction Requested

6. Will the Board appropriate revenue to cover department costs not recoverable through fees?

- DCD: Zoning code enforcement
- Treasurer-Tax Collector: Tax administration, collection, enforcement
- Law Enforcement: Criminal prosecution
- Health Services: Health code enforcement

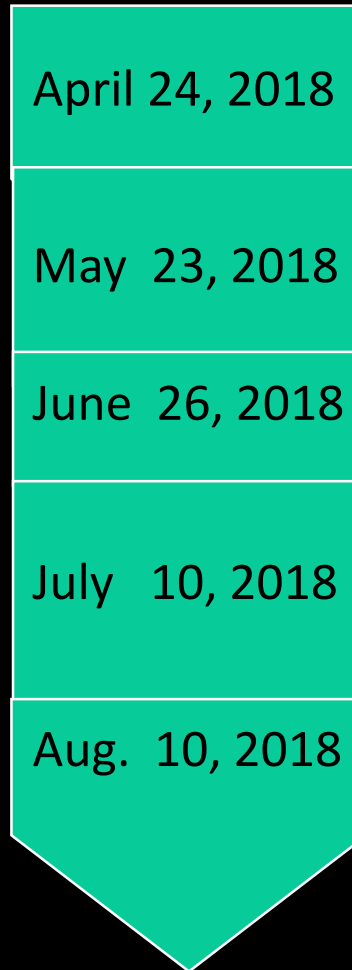
Timeline and Next Steps for a November 2018 Ballot Measure

Completed:

- Zoning Regulatory Framework

To do next:

- Planning Commission hearing on proposed Zoning Ordinance
- Public Hearing to consider adoption of Zoning Ordinance
- Public Hearing to consider adoption of Taxation and Health Ordinances, Ballot Measure Resolution
- Deadline to file ballot measure with County Elections



May 22
June 5
June 12

If more information is needed.

Questions / Direction / Need More Information?