

HdL

The background of the entire image is a photograph of a large, classical-style building, likely a city hall or government building. It features a central clock tower with a dome and a bell. The building is surrounded by trees, including a tall palm tree on the left and several smaller trees with autumn-colored leaves in the foreground. The sky is clear and blue.

*MEASURE R: CANNABIS
BUSINESS TAX COMMUNITY
WORKSHOP*

AGENDA

- Understanding of License Types
- Fees vs Taxes
- Revenue Strategies
- Future Trends
- Overview of proposed tax ordinance
- Review tax rates and cumulative tax
- Next steps

REVENUE STRATEGIES

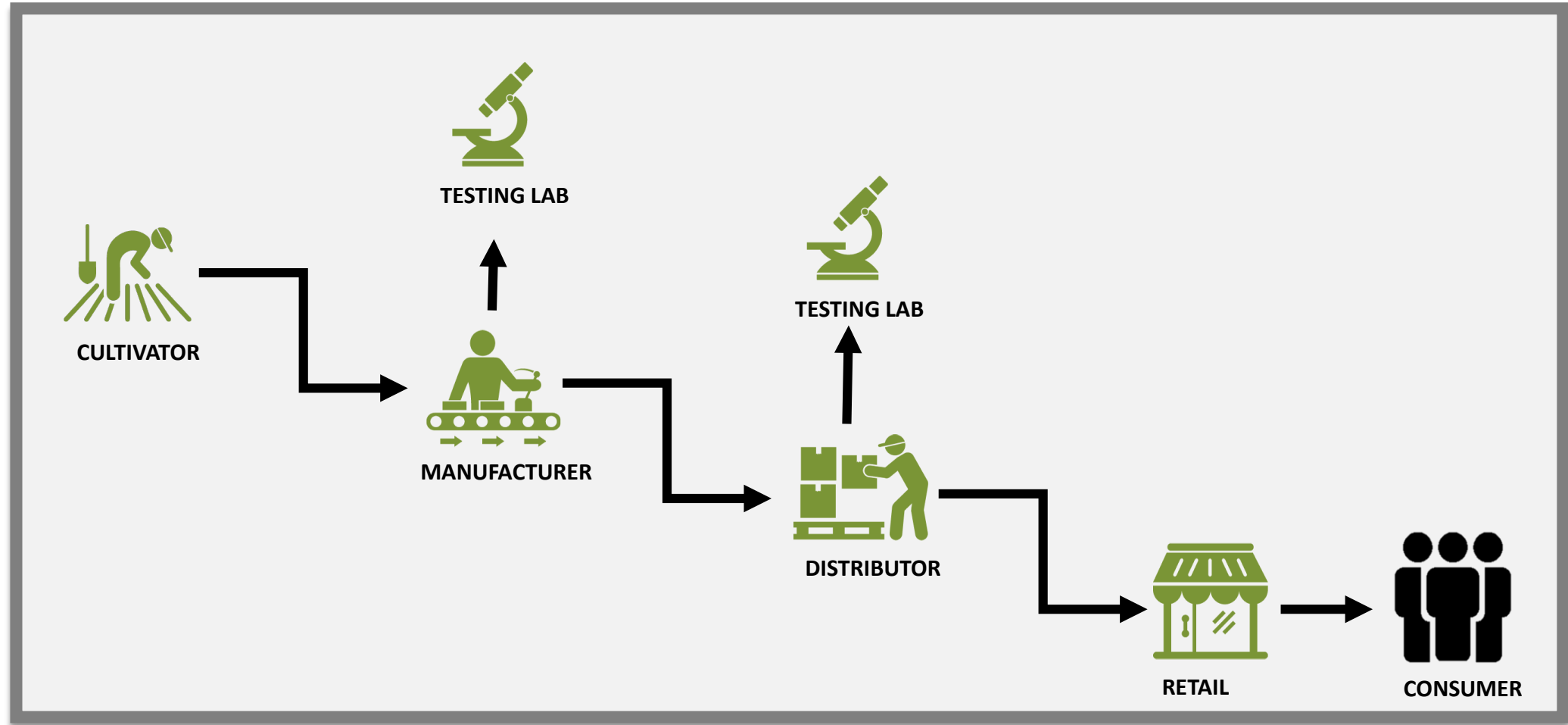
- The tax is a general tax enacted solely for general governmental purpose and not for a specific purpose
- Proactive revenue strategies will provide the city the flexibility to address:
 - Adult Use
 - Medicinal Use
 - Illegal Activity
 - Legislative changes (Ex: Vaping laws)
 - Regulatory changes (ex: Deliveries)
 - Future Trends and Policies (Hemp regulation)
- Goal: Successful Collaboration, Equitable Solutions for City and Business Operators

Understanding of License Types





CANNABIS BUSINESS CATEGORIES





Fees vs. Taxes



Regulatory fees cover all cost associated with permits, including staff resources



Ballot Measure-Cannabis Tax, General Tax requires 50% plus one to pass

FUTURE TRENDS

- A tax measure can be tailored to allow for changes in:
 - Technology
 - Evolving Hemp regulations
 - Potential vaping restrictions
 - Regulation of manufactured products (edibles and concentrates)
 - Changes in consumer behavior such as COVID 19

POTENTIAL CHANGES IN HEMP REGULATION

- Assembly Bill 228: Stalled this last year but could return in 2020
 - Sought to change law and provide regulations allowing hemp to be infused into food/beverages/cosmetics
 - Required amendment to Sherman Food and Drug Act which currently prohibits such commercial activity
 - Authorizes hemp to be manufactured, processed and sold in cannabis operations
- Possible legislative response to Industry trend of hemp shops appearing in cities to avoid high costs of cannabis regulation
 - Mix of Agricultural and MAUCRSA-type regulations for hemp
 - Restrictions on commercial hemp sales

PROPOSED TAX ORDINANCE

6-4.02:	Authority and purpose
6-4.04:	Definitions
6-4.05:	Tax imposed
6-4.06:	Registration, reporting and remittance of tax
6-4.19:	Audit and examination of premise and records
6-4.26:	Relief from tax-disaster relief
6-4.31:	Amendment or modification

RATE OF TAX

- High enough to generate proceeds to offset costs
- Low enough to avoid over-taxing and ***ensure sustainability***
- Ability to match tax rates with neighboring jurisdictions or region
- Recommend a three-year freeze on tax increase to stabilize market
- **Flexibility to adjust to changing market conditions and trends:**
 - City Council may increase or decrease tax rate
 - Index for inflation
 - Set minimum and maximum rates
 - Tax all cannabis categories in the City such as manufacturing, distribution, testing labs, delivery services and hemp activity



Authority to Tax Out of Town Deliveries



PROPOSED
MAXIMUM
RATES

RATES

LICENSE TYPE	RATE
Cultivation: Indoor, artificial lighting	\$10.00 SF
Cultivation: Indoor, mix lighting	\$7.00 SF
Cultivation: Outdoor	\$4.00 SF
Cultivation: Nursery	\$2.00 SF
Testing Laboratory	2% GR
Retailer/Delivery Services	6% GR
Distribution	3% GR
Manufacturing	4% GR

Cumulative Cannabis Taxes; Recommended Rates			
Category	Amount	Increase	Cumulative Price
Producer Price/lb	\$1,000	\$1,000	\$1,000
State Cultivation Tax/oz	\$9.65	\$154	\$1,154
Local Tax	2.50%	\$25	\$1,179
Batch Testing (with 1.0% tax)	\$75/lb, + 0.50%	\$77	\$1,256
Wholesale Price w/ Taxes		\$1,256	
Total Tax at Wholesale		\$256	
Tax as %		25.62%	
Manufacturer Markup	20.00%	\$251	\$1,507
Local Tax	2.50%	\$38	\$1,545
Total Manufacturer Price		\$1,545	
Total Taxes at Manufacturer		\$294	
Total Tax as %		19.02%	
Distributor Markup	20.00%	\$309	\$1,854
Local Tax	2.00%	\$37	\$1,891
Total Distributor Price		\$1,891	
Total Taxes at Distributor		\$331	
Total Tax as %		17.50%	
Retailer Markup	100.00%	\$1,891	\$3,782
Local Tax	4.00%	\$151	\$3,934
State Excise Tax	15.00%	\$567	\$4,501
Total Retailer Price		\$4,501	
Total Taxes at Retail		\$1,050	
Total Tax as %		23.32%	
State/County Sales Tax	7.25%	\$326	\$4,827
City Sales Tax	1.50%	\$68	\$4,895
Total Taxes at Retail		\$1,443	
Total Tax as %		29.49%	
Total City Tax		6.51%	\$319

CUMULATIVE CANNABIS TAXES

Recommended Rates

Manufacturing: 2.50%
Testing: 1.00%
Distribution: 2.00%
Retail: 4.00%

Cumulative Tax Rate:

29.49%
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 Companies

Cumulative Cannabis Taxes; Proposed Maximum Rates			
Category	Amount	Increase	Cumulative Price
Producer Price/lb	\$1,000	\$1,000	\$1,000
State Cultivation Tax/oz	\$9.65	\$154	\$1,154
Local Tax	2.50%	\$25	\$1,179
Batch Testing (with 2.0% tax)	\$75/lb, + 0.50%	\$78	\$1,257
Wholesale Price w/ Taxes		\$1,257	
Total Tax at Wholesale		\$257	
Tax as %		25.69%	
Manufacturer Markup	20.00%	\$251	\$1,508
Local Tax	4.00%	\$60	\$1,569
Total Manufacturer Price		\$1,569	
Total Taxes at Manufacturer		\$317	
Total Tax as %		20.22%	
Distributor Markup	20.00%	\$314	\$1,882
Local Tax	3.00%	\$56	\$1,939
Total Distributor Price		\$1,939	
Total Taxes at Distributor		\$374	
Total Tax as %		19.28%	
Retailer Markup	100.00%	\$1,939	\$3,878
Local Tax	6.00%	\$233	\$4,110
State Excise Tax	15.00%	\$582	\$4,692
Total Retailer Price		\$4,692	
Total Taxes at Retail		\$1,188	
Total Tax as %		25.32%	
State/County Sales Tax	7.25%	\$340	\$5,032
City Sales Tax	1.50%	\$70	\$5,102
Total Taxes at Retail		\$1,599	
Total Tax as %		31.33%	
Total City Tax		8.72%	\$445

CUMULATIVE CANNABIS TAXES

Maximum Rates

Manufacturing: 4.00%
Testing: 2.00%
Distribution: 3.00%
Retail: 6.00%

Cumulative Tax Rate:

31.33%

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Companies

LOCAL TAX REVENUE PROJECTIONS

Annual Revenue Estimates: Scenario*

- Very Conservative (4%): \$720,000
- Moderate (5%): \$900,000
- Aggressive (6%): \$1,080,000
 - *Assumes 6 businesses with an average of \$3M in gross receipts. (Very Conservative)*
 - *Assumes 5 business with an average of \$3.6M in gross receipts. (Moderate)*
 - *Assumes 3 business with an average of \$6M in gross receipts. (Aggressive)*

*Emerging market makes it difficult to assess with total accuracy

NEXT STEPS

Next Measure R Outreach Meeting
Scheduled for October 14 (Spanish)

Final Measure R Outreach Meeting
Scheduled for October 15

*Tax Measure R will be on the November 3,
2020 ballot*

Tax Ordinance becomes effective Jan 1,
2021 if approved by the voters



QUESTIONS?





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Thank you!