

CANNABIS – IS IT A SOLUTION TO YOUR GENERAL FUND DEFICIT?

California Society of Municipal Finance
Officers 2018 Conference



Topics Covered



- City Finance Challenges
- Basic Information – Cannabis (State and Local Level)
- What's Happening in Other States
- How Much Revenue are We Really Talking About?
- Bellflower Case Study (including Lessons Learned)

City Finance Challenges

- Pension Contributions/Unfunded Liabilities
 - 2017-2018 CalPERS payments = \$5.3 Billion
 - 2022-23 *Projected* = \$9.8 billion in 2022-2023 (84% increase)
- Rising Service Costs
- Retail Sales Tax Outlook
- Limited Property Tax Revenues
- Lack of Revenue Generating Tools
 - Loss of Redevelopment/Tax Increment Financing



Recreational Cannabis Considered by Many Communities Due to these Factors

The Basics - Statewide

- Recreational cannabis legal as of January 1, 2018
- Retail, Cultivation, Manufacturing, Testing, Distribution
- Statewide - \$5 Billion Industry
- State taxes estimated at \$1 Billion/yr
 - State Excise Tax on Products = 15%
 - State Cultivation Tax = \$2.75-\$9.25/ounce
- Total Tax Rate (including local & sales) could = 45%
- CA 6th Largest Economy in World



State Regulations

- Requirements (Adult-Use and Medical)
- Heavily Regulated Industry
 - Track and Trace System
 - Licensing/Permits/Fees
 - Security
 - Reporting
 - Compliance
 - Inventory at least 1x every 14 days
 - Testing Requirements
- Distributors Pay State Excise Taxes



Tax Rates/Revenues – Other States

State	Average Tax Rate ¹	2016 Tax Revenue
Colorado	28%	\$200 M
Washington	37%	\$256 M
Oregon	20%	\$60 M
Nevada	32%	\$8.6 M (July 2017 only)

Notes
 1 - Includes all state and local excise taxes, fees and sales taxes.
 Source - CNN & Tax Foundation



The Basics – Local Government

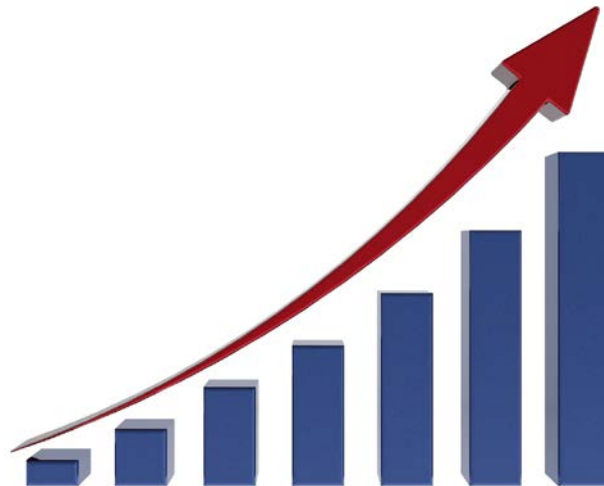
- Cities and Counties may also levy excise tax
 - Cultivation, manufacturing & testing = \$10-\$30/square foot or 3-5% of GR
 - Retail & distributors = 5-15% GR
- 9 Counties & 50 Cities passed ballot measures on taxation BEFORE recreational was legalized
- Bellflower - \$2.6 million to General Fund revenue annually



How Much Revenue?

Bellflower – RSG Study

- 12 Businesses
 - Average **\$2.6M in Revenue to GF Annually** over 10 years (\$8.3M Total 1st 5 Years)
 - **188 New Jobs** by Year 2 (Direct, Indirect & Induced)
 - **\$200M Economic Output** (Direct, Indirect & Induced)



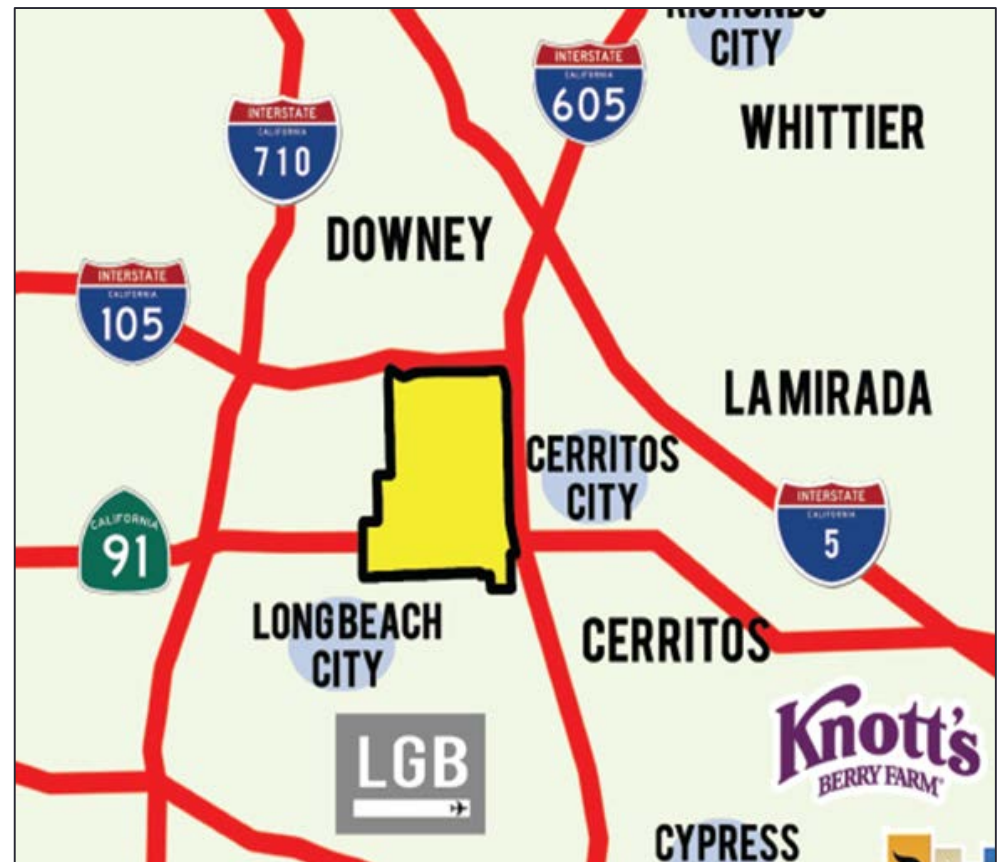


CASE STUDY

City of Bellflower

Bellflower - Background

- City in Los Angeles County
- Population - 77,000
- 6.1 Square Miles



How the Conversation Started

- November 2016 passage Proposition 64
- Cannabis Tax = expiring 2% UUT (3/2018)
 - Generated \$1.4-\$1.5M/year
 - Funded Economic Development & Public Safety
 - Council promised not to extend 2% UUT
- Budget cuts not in City's best interest
- April 2016, Bellflower Council directed staff to prepare Cannabis Tax measure for consideration



Other Considerations

- PERS Unfunded Liability - \$13.9 M
- Retiree Medical (OPEB) UL - \$5.7 M
- Gap Funding after 2012 RDA Dissolution



Staff/Document Requirements

- Lead Offices/Departments

- City Manager's Office
- City Attorney's Office
- Planning Department
- Finance Department



- Documents

- Tax and Regulatory Ordinances; Tax Measure
- Application and Permit Fees (Resolution)
- Cannabis Map re. Distance Requirements
 - Illustrative purposes only; schools, child daycare centers, youth centers, parks, churches, drug/alcohol rehab centers

- Application Requirements and Minimum Qualifications (Resolution)



Application Requirements/Qualifications

- Business Plan
- Security Plan
- Operations Plan
- Traffic & Parking Study
- Fire Prevention/
Suppression Plan
- Live Scan
- Good Moral Character
- Competence
- Adequate Financing
- 10-Year Lease or Property Ownership, etc.



Public Outreach Process

First - Ballot Measure

- Over 20 presentations
 - Residential Groups (i.e., Neighborhood Watch)
 - Churches
 - Service Clubs
- Attendance - 20 to 100
- Goal - 100% Transparent
 - Why is this being pursued?
 - Expected Impacts
 - Concerns and how to address concerns
- March 2017 - Ballot measure passed (74% approval)



Public Outreach Process (continued)

Second – Ordinance

- 3 Public Meetings prior to approving formal ordinance for CUP process
- No Council action except to listen/respond to concerns
- Attended by more than 100 persons
- Spirited & fair share of pointed political outcry on issue
- Substantial “yes” vote on ballot measure - critical mitigating response to concerns



Public Outreach Process (continued)

Outcome – Public Meetings

- Ordinance Approved with Specific Limits on sales, manufacturing, cultivation & distribution
 - 12 permits total issued
 - Only four (4) dispensary permits issued
- Our Belief - combination of public & community group meetings earned City Council and staff integrity on process
- Not all critics “won over” but earned some “integrity points” in playing the cards face up



Timeline/Meetings

April 2016 to January 2018 – Over 42 Public/Council Meetings

- April 2016 – Council directed staff; cannabis tax measure
- October 2016 – Public Hearing; Tax & Regulatory Ordinances, Resolution re. application requirements and min. qualifications
- November 2016 – Tax Ordinance, Ballot Measure Approval
- **March 2017 – Voters Approved Cannabis Tax (74% Approval)**
- August 2017 – Ordinance to regulate medical cannabis businesses; Adopted Application and Permit Fees
- September 2017 – Mandatory Applicant Meeting; Began accepting medical cannabis permit applications; Separate website dedicated for cannabis permitting (bellflowermbpermits.com)
- December 2017 – Council Approved 10 Cannabis Permits
Note: Revoked 1 Permit in January 2018

Permits/Fees

- 12 Total Medical Cannabis Business Permits
 - Cultivation, Manufacturing, Distribution, and Dispensaries (4 maximum)
- Application and Permit Fees
 - \$28,500 application fee (including CUP and CEQA fees)
 - \$25,000 permit fee for recovery of staff time, legal & contract services
 - Mandatory annual contribution of \$5,000 to a Drug Rehabilitation Program



Fees/Revenues to Date

	Cash	Checks	Total
Applications (17)	\$28,500	\$456,000	\$484,500
Permits (7)	\$0	\$175,000	\$175,000
Cannabis Tax	N/A	N/A	N/A
Total	\$28,500	\$631,000	\$659,500



Bellflower Tax Rates

Business Type	Taxes		Maximum # Outlets
	<i>Starting</i>	<i>Max</i>	
Dispensaries (4 max)	5% GR	10% GR	12 for cultivation, manufacturing, distribution and dispensaries
Manufacturers			
Testing Sites			
Distributors			
Transportation	\$1,500		
Cultivators-Canopy	\$15/sf	\$25/sf	
Cultivators Nurseries	\$2/sf	\$5/sf	

Revenues and Uses

Fiscal Year	Cannabis Taxes	UUT Replacement	PERS Unfunded Liability (UL) over 2017-18	Retiree Medical (OPEB) UL over 2017-18	Net Revenue
2018-19	\$1,300,000	\$1,400,000	\$200,000	\$200,000	(\$500,000)
2019-20	\$1,700,000	\$1,400,000	\$400,000	\$200,000	(\$300,000)
2020-21	\$2,300,000	\$1,400,000	\$500,000	\$200,000	\$200,000
2021-22	\$3,000,000	\$1,400,000	\$700,000	\$200,000	\$700,000
2022-23	\$3,200,000	\$1,400,000	\$900,000	\$200,000	\$700,000
2023-24	\$3,400,000	\$1,400,000	\$1,000,000	\$200,000	\$800,000
2024-25	\$3,500,000	\$1,400,000	\$1,000,000	\$200,000	\$900,000
Totals	\$18,400,000	\$9,800,000	\$4,700,000	\$1,400,000	\$2,500,000

Cash Handling/Banking

- Cash
 - Cummins Allison
 - 1,600 bills per minute
 - Counterfeit detection
 - \$3,500 w/printer & tax + \$390 maintenance
- Banking (Cities)
 - Bank of the West
 - US Bank
 - Wells Fargo

JetScan iFX i100

Currency Counter and Check Processing



Cannabis Tax vs. UUT

- Process/requirements involve a large amount of staff time/public outreach/meetings/compliance
 - Implementation + Ongoing Tax and Compliance Management
- Public concerns – moral, public safety, character of community
- Cannabis Tax vs. UUT, Transactions & Use Tax, other taxes





8 LESSONS LEARNED

Lessons Learned

1. **Be Very, Very Certain You & Your Community Want To Take This Route**

- There will be public blow back - all involved better be steadfast in articulating mission.
- Don't argue merits. By the time you get to Council, that opportunity is lost.
- Develop your message and stay the course.



Lessons Learned (continued)

2. Engage the Public Repeatedly. Then Do It Again

- Neighborhood Workshops
- The more, the merrier
- Be Empathetic. The Public's Concerns are Valid and Deserve Lucid Responses.
- Meet With All Who Express Interest... Even Those Who Want to Put Your Head On a Pike.



Lessons Learned (continued)

3. Get Voter Approval

- The single most important part of the process.
- It will help counter arguments that you are only in it for the money, that we are selling our kids out, that it's the devil's workshop, etc.
- It will help keep your City Council stay focused.



Lessons Learned (continued)

- 4. Don't Get Bugged Down Rating Candidates**
 - Lots of talk on who's best. Believe none of it.
 - Virtually all of the applicants will let you down in some manner.
 - Do NOT anoint any applicants as front runners until the process is finished. Then, embrace the concept again and repeat process (*the process is never really over*)

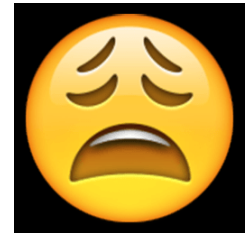


Lessons Learned (continued)

5. **You Become Reacquainted With Best Friends You Don't Remember Having**
 - Use Reputable Consultants who do not work for the industry & do not use industry-supplied data.
 - Check references with other communities – who helped them through the process.

Lessons Learned (continued)

6. Channel Your Inner Philosopher and embrace the German Concept of “Weltschmerz”



- The term describes a work weariness felt from a perceived mismatch between the ideal image of how the world should be with how it really is.
- Applicants will unfailingly disappoint you. And, their representatives (see above) will unfailingly let you know how wrong you are in feeling that way.

Lessons Learned (continued)

7. In God We Trust... All Others Pay Cash



- Applicants promise the moon.
- They are all building the gold standard facility... when they are talking.
- In reality, like all other developers, you get only what you require in a CUP.
- If you seek to allow Cannabis Uses by right, STOP.
- Adhere to your development standards.

Lessons Learned (continued)

8. It Ain't Over Till it's Over*

- It's The Gift That Keeps on Giving

**It's never over.*



Questions

