

Working with
local
government
and the
cannabis
industry to:

Capture Revenue

Support Business
Compliance

Implement
Ordinances

MuniServices presents:

Interactive **Webinar** Discussion on

Proposition 64

The Impacts of Recreational Cannabis

Wednesday, November 16, 2016
10:00 AM

CANNABIS SUPPORT SERVICES

Administration • Compliance • Revenue • Education



Cannabis

- **Jeff Kolin, Senior Advisor to MuniServices.** Retired California City Manager of Beverly Hills, Santa Rosa and Pittsburg. Jeff brings decades of experience tackling complex issues facing city governments.
- **Larry Bergkamp, Senior Technical Advisor to MuniServices.** Retired from Board of Equalization with over 28 years of tax expertise. Larry has extensive experience in auditing, compliance, policy, legislation and was the BOE's lead technical expert on medical marijuana issues since 2005.
- **Jonathan V. Gerth, ESQ VP Audit Services.** Jonathan manages tax compliance and audit activities, including Cannabis compliance audits for California Cities. Jonathan has previously worked as Tax Counsel for the IRS.
- **Brenda Nayan, Director of Government Relations.** Brenda has over 20 years working on behalf of Local Governments and in partnership with the League of Cities. Brenda previously worked for Assembly Speaker Willie Brown.

WEBINAR MODERATOR

- **Robert Hamud, Client Services Manager, MuniServices.** Over 13 years of state and local public sector budget and finance experience including working on Medical Marijuana policy for the State of Montana.



Cannabis

HOW WE GOT HERE

- **The Proposition 64 Vote:** **Yes:** 56.1% or 5,052,413; **No:** 43.9% or 957,829
- **County Voting Map:** <http://vote.sos.ca.gov/returns/maps/ballot-measures/prop/64/>
- **What:** Legalizes adult nonmedical use of marijuana; changes state law to legalize use of marijuana for nonmedical purposes; legalizes nonmedical marijuana activities with restrictions.
- **What About Locals:** Does not change local governments' ability to place other taxes on medical or nonmedical marijuana.
- **For Whom:** Adults age 21 and over.
- **When Does Proposition 64 Become Effective:** November 9, 2016
- **When Will Recreational Cannabis Businesses Activities Begin:** January 1, 2018

RESTRICTIONS

- **Smoking marijuana:**
- **Processing marijuana for personal use:**
- **Growing marijuana:**
- **Giving away marijuana:**



Cannabis

- **Where Can Consumption Take Place:** Smoking marijuana in a private home or at a business licensed for on-site marijuana consumption.
- **How Much Can be Possessed:** Up to 28.5 grams (about one ounce) of marijuana and up to 8 grams of concentrated marijuana (such as hash).
- **Where Can the Plants be Grown for Personal Use and How Much:** Growing up to six living marijuana plants and keeping the marijuana produced within a private home.

Examples of What
is Allowed



Cannabis

EXAMPLES OF WHAT IS NOT ALLOWED

- **Consumption:** Smoking marijuana (1) while driving a car, (2) in any public place (other than at a business licensed for on-site consumption), or (3) anywhere that smoking tobacco is prohibited.
- **Possession:** May not be possessed on the grounds of a school, day care center, or youth center while children are present.
- **Growing:** Not allowed in an area that is unlocked or visible from a public place.
- **Minors** Providing marijuana to minors under the age of 21 for nonmedical use is not allowed.

Examples of What is Not Allowed



Cannabis

REGULATIONS

State Agency Role: State agencies would have responsibilities similar to those under current law for medical marijuana. Under the measure, the system for tracking medical marijuana products would be expanded to include recreational marijuana products.

CITIES AND COUNTIES

Local License and Zoning: Could require recreational marijuana businesses to obtain a local license and set rules for such businesses (such as restricting where they could be located).

Bans: Could completely ban all marijuana- related businesses.



Cannabis

- **Department of Consumer Affairs (DCA):** Is the lead agency and houses the Bureau of Medical Cannabis Regulation
- **Bureau of Medical Cannabis Regulation:** Will oversee the whole system and ensure a smooth transition to the legal market. Will license and oversee marijuana retailers, distributors, and microbusinesses.
- **Department of Food and Agriculture:** Will license and oversee marijuana cultivation, ensuring it is environmentally safe.
- **Department of Public Health:** Will license and oversee manufacturing and testing, ensuring consumers receive a safe product.
- **Board of Equalization:** Will collect the special marijuana tax.
- **Controller:** Will allocate the revenue to administer the new law and provide the funds to critical investments.

State Agency Role (Prop 64, Page 2)

STATE REGULATIONS / PRE-REGULATORY MEETINGS

Cannabis

It is anticipated that pre-regulatory meetings will be held by the control agencies related to recreational cannabis. The dual licensing requirements for Recreational Marijuana preserve local control and emphasize the importance of local agency involvement in the development of Statewide standards and regulations. Involvement is needed to make sure the minimum standards are set appropriately and consistency is created statewide

- **Bureau of Medical Cannabis Regulation**
<http://www.bmcr.ca.gov/meetings/index.shtml>
- **California Department of Food and Agriculture**
<https://www.cdfa.ca.gov/is/mccp>
- **California Department of Public Health**
<https://www.cdph.ca.gov/programs/Pages/OMCSStakeholderMeeting.aspx>
- **State Board of Equalization** <http://www.boe.ca.gov/news/marijuana.htm>



Anticipated
Regulations will
be Developed by
January 1, 2018

Cannabis

HOW IS MARIJUANA TAXED UNDER PROPOSITION 64

There are various taxes under Proposition 64

- **State and local sales and use tax:** Existing state and local sales tax applies to recreational cannabis
- **Existing local tax:** Does not impact existing local taxes imposed on medical cannabis products and activities.
- **Future local tax:** Allows the imposition of new local tax on medical and recreational cannabis products and activities
- **New state retail excise tax:** 15 percent of retail price on both medical and recreational cannabis (Prop 64, Page 41)
- **New state tax on cultivation:** \$9.25 per ounce of dried cannabis flowers and \$2.75 per ounce of dried cannabis leaves for both commercial medical and recreational cannabis (Prop 64, Page 42)
- **Sales tax on medical marijuana:** BOE issued a special notice stating that medical cannabis is exempt from state and local sales and use tax.

Proposition 64 affect sales tax revenue to the state and local governments .

Legalization the sale of recreational cannabis may result in new sales tax revenue stream.



Cannabis

HOW PROPOSITION 64 CHANGED CURRENT LAW

- Medical marijuana and marijuana products are exempt from the State and Local Sales and Use Taxes
- Will not impact locally adopted taxes on Medical Marijuana
- The proposed excise tax under Proposition 64 is in addition the sales and use tax imposed by state and local governments

LOCAL AUTHORITY UNDER PROPOSITION 64

- May adopt and enforce ordinances to regulate businesses licenses, local zoning and land use
- May completely prohibit marijuana type businesses

Local control allows local governments to tailor their regulations to fit community standards from a complete ban to regulations for citing appropriate segments of the industry in your community and enacting appropriate levels of taxes to offset the costs of administration, enforcement and compliance.



Cannabis

COSTS

- **State Agency Costs are Paid First:** Monies deposited in the fund would first be used to pay back certain state agencies for any cannabis regulatory costs not covered by license fees

ANNUAL ALLOCATION OF REVENUES FOR EVALUATIONS, STUDIES, AND COMMUNITY SERVICES

- **Evaluation of Proposition 64:** *\$10 million* (2018-19 through 2028-29)
- **Create and Adopt Driving While Impaired Detection Methods:** *\$3 million* (2018-19 through 2022-23)
- **Grants to Provide Community Services:** Mental Health and Substance Use Treatment and Job Placement *\$10 million* (2018-19); *increasing by \$10 million* until 2022-23 and *\$50 million* each year thereafter
- **Study on the Risks and Benefits of Using Marijuana for Medicinal Purposes:** *\$2 million* (beginning in 2017-18)

Proposition 64
Creates the California
Marijuana Tax Fund

*The state excise tax
on retail sales and
the state tax on
cultivation, as well as
certain fines, would
be deposited
in the new special
fund*



Cannabis

REMAINING ANNUAL ALLOCATION DISTRIBUTIONS

- **Youth Programs:** Including substance use disorder education, prevention, and treatment: *60 percent*
- **Environmental Damage:** Clean up and prevent environmental damage resulting from the illegal growing of marijuana: *20 percent*
- **Programs to Reduce DUI and Negative Public Safety Impacts:** Includes a grant program to help reduce any potential negative impacts on public health or safety resulting from Proposition 64: *20 percent*

Beginning July 2028, the Legislature could change these allocations subject to certain limitations



PERSONAL CULTIVATION

- Personal cultivation of marijuana would be done in accordance with local ordinances
- Living plants and any marijuana products must be kept within the person's private residence or in a locked space not normally visible to the public
- Not more than 6 living plants must be allowed
- Local jurisdictions may not completely prohibit personal cultivation

LOCAL GOVERNMENT OPTIONS

- Enact and enforce reasonable regulations to personal cultivation
- Prohibit personal outdoor cultivation
- Limit the number of licenses based on the concentration of operations in the jurisdiction
- Impose a tax on cannabis business activities

Cannabis

Proposition 64

Personal Cultivation

Options for Local Jurisdictions



PUBLIC SAFETY AND HEALTH

- **Schedule I (Federal) Controlled Substance:** Conflicts with State Medical Cannabis Regulation and Recreational Use
- **Consumption in Public and Intoxication:** What enforcements and regulations are needed
- **Driving and Traffic Enforcement:** DUI and public intoxication standards
- **Neighbors:** Housing and cooperative enforcement and regulation
- **What About our Youth:** What prevention programs are needed that work
- **Cash:** Nature of the industry heightens risk of robberies and home crimes
- **Enforcement:** Increased demand or a reduction for illegal markets
- **Cultivation and Manufacturing Means New Waste:** Hazardous chemicals, pesticides, and other waste need a 'resting place' that protects the public
- **Others TBD**

Cannabis

Proposition 64

Public Safety and Health



Cannabis

Local Taxes?

WHAT IS THE RIGHT LOCAL TAX MEASURE

- Retail and/or wholesale sales
 - Medical and/or Recreational
- Canopy taxes based on the square footage under cultivation
- Dry weight tax on cultivation
- THC content
 - Difficult to administer, extensive testing requirements
- Business license taxes and fees
- Balance the level of taxation to avoid diverting demand to neighboring jurisdictions or the black market



Cannabis

WHAT CALIFORNIA CITIES AND COUNTIES ARE DOING

- Most if not all local jurisdictions have taken a position on the medical cannabis industry
- Authorization / prohibition currently vary widely throughout the state
- Express authorization or prohibition might be required to regulate medical and recreational cannabis activities
- Passive bans may not be sufficient to prohibit medical and recreational cannabis marijuana activities
- What are the potential economic impacts for authorizing or prohibiting any cannabis activities
- What are the potential zoning and land use impacts for authorizing or prohibiting any cannabis activity



Cities and
Counties

What's in Motion

SUMMARY OF CANNABIS BALLOT MEASURES

63: Total
47: Passed
16: Failed

Including Tax Issue

41: Total
36: Passed
5: Failed

Cannabis

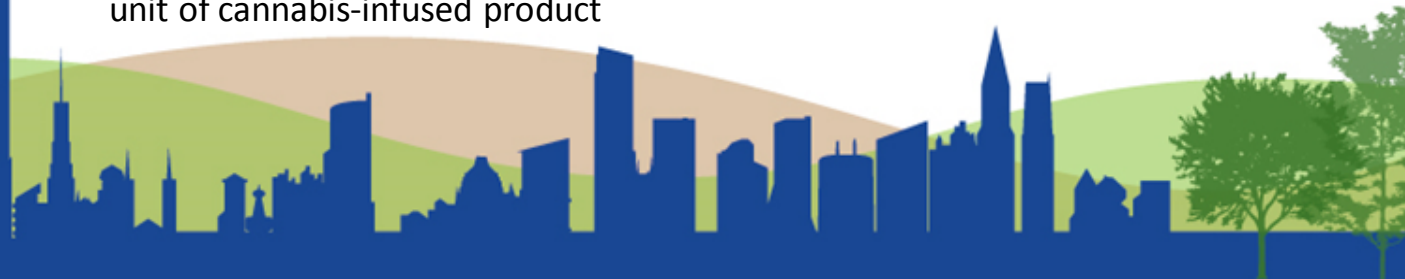
November 8,
2016, Local Ballot
Measures



Cannabis

TAX CHANGES OF CANNABIS AFTER 11/8/16?

- **Coalinga:** 10% tax on proceeds from dispensaries on gross receipts , \$25 per sq. ft. for first 3,000 sq. ft. and \$10 per sq. ft. for remaining cultivation space.
- **Long Beach:** 6-8% from medical dispensaries on gross receipts and 8-12% for recreational stores. 6-8% from processing, distributing, transporting and testing facilities on gross receipts. \$12-\$15 per sq. ft. on cultivation of medical and recreational cannabis.
- **Stockton:** Increase medical cannabis business license tax from \$25 per \$1,000 of annual gross receipts to a minimum of \$35 and a maximum of \$50 per \$1,000.
- **San Bernardino:** \$250 application fee, \$5 per sq. ft. of cultivation space, \$5 of occupied business and manufacturing space and \$100 per transportation vehicle.
- **Cathedral City:** Existing - up to 15% tax on retail proceeds on marijuana collectives and dispensaries. New - \$25 per sq. ft. on cultivation space and \$1 per gram of cannabis concentrates and every unit of cannabis-infused product



PREPARING FOR JANUARY 1, 2018

Cannabis

- **Discuss with Stakeholders:** Cannabis policy and determine governing body level of support
- **Review and Update:** Land use regulations to conform to policy direction
- **Permits and Regulations:** Consider requiring permits and inspections for fire safety and code compliance
- **Examine Prohibitions and What Will be Allowed:** Be specific do not rely on permissive zoning regulations
- **Existing Municipal Codes and Ordinances:** Review to ensure that they meet the needs for both medical and recreational cannabis
- **Transportation:** May not prevent transportation on public roads
- **Delivery:** Consider allowing the delivery of medical or recreational cannabis
- **Clubs:** Consider allowing consumption on the premises of retailers or microbusinesses (Prop 64, Page 38)



PREPARING FOR JANUARY 1, 2018

Cannabis

MuniServices provides exceptional and comprehensive consultative services to localities in California that include, but are not limited to:

- **Evaluating** the level of support for the type and size of industry activity
- **Ordinance development and optimization** to address specific local issues and requirements
- Assistance with **revenue and cost projections** for local ballot measures
- **Compliance Auditing Services**
 - 1.) To ensure all applicable taxes are reported accurately and timely
 - 2.) Compliance Audit reviews to ensure entities are in observance with all applicable ordinances and reporting/remittance requirements
- **Educational and training** services for city/county staff and industry representatives to optimize compliance and enforcement measures
- Working with the California Bureau of Cannabis Regulations as a **key contributing stakeholder** during the **regulation development process** to ensure that local government interests are considered and any issues are addressed for both medical and recreational cannabis activities
- Developing **market analysis** and **resources allocations studies** that addresses staffing, contract services, multi-department coordination, prevention and intervention programs



Cannabis

Cannabis Support Services

MuniServices has extensive experience in the state regulatory process, dispensary audits, and industry business activities including, but not limited to:

- Cultivation
- Track and Trace
- Transportation
- Mobile Dispensaries
- Storefront Dispensaries
- Registration
- Personal Use
- Taxes

MuniServices is ready to discuss any of your specific issues or needs.

MuniServices has assembled a **“Blue Chip”** specialized staff that has the expertise to assist cities and counties develop a comprehensive cannabis policy. We provide technical support from the initial discussion stages to the final implementation process. Our medical cannabis audit staff was the first to complete dispensary audits for municipalities throughout California.



“Blue Chip” Team

Cannabis

Strategic Partnerships to Address Future Needs

MuniServices is establishing partnerships with industry leading entities to provide premier services to ensure our clients have the best information available to address future medical and recreational cannabis issues. These partnerships have extensive expertise in the following areas:

- Polling & Research
- Ordinance development and implementation
- Identifying Key Constituencies & Stakeholder Outreach
- Coordinating involvement and input from key demographics
 - Law Enforcement
 - Parent Organizations
 - Ethnic Organizations
 - Chambers of Commerce
- Coordinating cannabis business activity education and tours
- Electorate Considerations



Contacts and Resources



Discover. Recover. Prosper.

CONTACTS/ SPEAKERS AND PRESENTERS

Jeff Kolin: Jeff.Kolin@MuniServices.com / 310.975.9480 (Technical Advisor)

Larry Bergkamp: Larry.Bergkamp@MuniServices.com / 530.301.2564 (Technical Advisor)

Jonathan Gerth: Jonathan Gerth, Esq., Vice President, Cannabis Audit: JVGerth@REVDS.com

Mike Madrid, Founder, California Marijuana Policy: madrid@grassrootslab.com (Ballot Advisory)

Fran Mancia: Fran.Mancia@MuniServices.com / 559.288.7296 (Government Relations)

RESOURCES

<http://www.muniservices.com/services/cannabis-support-services/>
www.calmarijuanapolicy.org

MuniServices
1400 K Street, Suite 301
Sacramento, CA 95814

Located in the League of
California Cities Building

