



Date: August 2, 2016
To: Patrick H. West, City Manager *T.M.*
From: John Gross, Director of Financial Management *J.G.*
For: Mayor and Members of the City Council
Subject: Marijuana Competing Tax Ballot Measure Revenue Projections

At the request of the City Council, the City Attorney's Office has prepared a resolution calling for the placement of a Tax Measure (Measure) on the November 8, 2016 ballot to amend the City's existing marijuana business license tax. This memo provides supporting information on the revenue projections of \$13 million included in the Measure. The revenue estimate used for the ballot measure accounted for both medical marijuana revenues and possible non-medical marijuana revenues in the case that other ballot measures permitting these uses passes and a regulatory framework for non-medical marijuana is subsequently passed by the City Council.

The Measure would apply a gross receipts tax of up to 8 percent on medical marijuana dispensaries and up to 12 percent on non-medical (recreational) marijuana dispensaries. Initially, these rates would be set to 6 percent and 8 percent for medical and non-medical dispensaries, respectively, subject to increase through an ordinance by the City Council. Other types of medical and non-medical marijuana businesses would pay a gross receipts tax rate of up to 8 percent, with the tax rate initially being set at 6 percent. These other types of businesses include Manufacturing (Processing), Distribution, Transportation and Testing.

The Measure would also apply a square footage tax to medical and non-medical marijuana cultivators, at a rate of up to fifteen dollars (\$15) per square foot. This tax rate would be initially set at a rate of twelve dollars (\$12) per square foot. As with the gross receipt rates, the City Council may vote to increase the cultivation rate up to the maximum by ordinance.

The following tables summarize the proposed marijuana business tax rates. Table 1 compares existing rates for medical marijuana in the Long Beach Municipal Code (LBMC), to those proposed by the "Regulation of Medical Marijuana Businesses" voter initiative (Kelton Initiative) and those proposed in the competing Measure described above. Table 2 provides the same information for non-medical marijuana tax rates.

Table 1: Medical Marijuana Tax Rates

| Medical Marijuana Business Types | Type of Tax | Current (Municipal Code) | Ballot Measure (Kelton Initiative) | Ballot Measure (City Council) |
|---|--------------------|---------------------------------|---|--------------------------------------|
| Dispensaries | Gross Receipts | 6% (Min 0% - Max 10%) | 6% (Min 0% - Max 6%) | 6% (Max 8%) |
| Cultivators | Sq. Ft. | \$15 (Min \$0 - Max \$50) | \$10 | \$12 (Max \$15) |
| Manufacturers | Gross Receipts | 6% (Min 0% - Max 10%) | 0%* | 6% (Max 8%) |
| Testing Sites | Gross Receipts | 6% (Min 0% - Max 10%) | 0%* | 6% (Max 8%) |
| Transporters | Gross Receipts | 6% (Min 0% - Max 10%) | 0%* | 6% (Max 8%) |
| Distributors | Gross Receipts | 6% (Min 0% - Max 10%) | 0%* | 6% (Max 8%) |

**Note: According to the measure, these business types will pay an annual fee of 150% of the average business license rate for personal service businesses in Long Beach, or \$1,000 per year, whichever is more.*

Table 2: Non-Medical Marijuana Tax Rates

| Non-Medical Marijuana Business Type | Type of Tax | Current (Municipal Code) | Ballot Measure (Kelton Initiative) | Ballot Measure (City Council) |
|--|--------------------|---------------------------------|---|--------------------------------------|
| Dispensaries | Gross Receipts | 15% (Min 0% - Max 15%) | 0% | 8% (Max 12%) |
| Cultivators | Sq. Ft. | \$25 (Min \$0 - Max \$25) | \$0 | \$12 (Max \$15) |
| Manufacturers | Gross Receipts | 15% (Min 0% - Max 15%) | 0% | 6% (Max 8%) |
| Testing Sites | Gross Receipts | 15% (Min 0% - Max 15%) | 0% | 6% (Max 8%) |
| Transporters | Gross Receipts | 15% (Min 0% - Max 15%) | 0% | 6% (Max 8%) |
| Distributors | Gross Receipts | 15% (Min 0% - Max 15%) | 0% | 6% (Max 8%) |

Revenue Projections

The Financial Management Department has prepared revenue projections for the City Council Measure described above. The projections assume the lowest tax rate for medical and non-medical marijuana. This is consistent with where the rates will initially be set by the Measure. The medical and non-medical marijuana projections rely on a simplified version of the methodology used in the Fiscal Impact Analysis for the Kelton Initiative in order to accommodate the need for a single revenue estimate for the ballot measure question. Rather than presenting a range of Low, Medium and High revenues, the tables assume a single scenario. For medical marijuana revenue estimates, the Medium scenario was selected, and due to the uncertainty of non-medical marijuana, the Low scenario was

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selected for non-medical marijuana. This is to account for the fact that a significant percentage of non-medical marijuana sales will come from individuals who previously purchased from the medical marijuana market.

Table 3: Medical Marijuana Business License Tax Revenues

| Business Type | Capture Rate | Estimated Revenues |
|--|--------------------------------|--------------------|
| Dispensary | Gross Receipts Tax (6%) | \$3,074,688 |
| Cultivator | Cultivation Sq. Ft. Tax (\$12) | \$3,600,000 |
| Manufacturer | Gross Receipts Tax (6%) | \$720,000 |
| Transporter/ Distributor | Gross Receipts Tax (6%) | \$480,000 |
| Testing Site | Gross Receipts Tax (6%) | \$120,000 |
| Total Business License Tax Revenues | | \$7,994,688 |

Table 4: Non-Medical Marijuana Business License Tax Revenues

| Business Type | Capture Rate | Estimated Revenues |
|--|--------------------------------|--------------------|
| Dispensary | Gross Receipts Tax (8%) | \$2,319,036 |
| Cultivator | Cultivation Sq. Ft. Tax (\$12) | \$1,680,000 |
| Manufacturer | Gross Receipts Tax (6%) | \$340,541 |
| Transporter/ Distributor | Gross Receipts Tax (6%) | \$454,054 |
| Testing Site | Gross Receipts Tax (6%) | \$113,514 |
| Total Business License Tax Revenues | | \$4,907,144 |

It should be noted that whether non-medical marijuana market growth actually results in new business openings, or if new sales get absorbed in existing marijuana facilities is mostly irrelevant for projecting purposes. Tax revenues are based on gross receipts and square footage, not total number of permits.

Summary of Revenue Projections

A summary of revenue projections is provided below. The summary also includes an estimate of revenues that would be collected under the lower rates proposed in the Kelton Initiative.

Table 5: Medical Marijuana Estimated Revenue Comparison

| Medical Marijuana Tax Rate Structure | Estimated Revenues |
|--------------------------------------|--------------------|
| Kelton Initiative | \$6,086,688 |
| Council Proposed Measure (Minimum) | \$7,994,688 |
| Council Proposed Measure (Maximum) | \$10,359,584 |

Table 6: Non-Medical Marijuana Estimated Revenue Comparison

| Non-Medical Marijuana Tax Rate Structure | Estimated Revenues |
|---|-------------------------------|
| Kelton Initiative | \$0 |
| Council Proposed Measure (Minimum) | \$4,907,144 |
| Council Proposed Measure (Maximum) | \$6,789,364 |

Table 7: Total Estimated Revenue Comparison

| Medical & Recreational Marijuana Tax Rate Structure | Estimated Revenues |
|--|-------------------------------|
| Kelton Initiative | \$6,086,688 |
| Council Proposed Measure (Minimum) | \$12,901,832 |
| Council Proposed Measure (Maximum) | \$17,148,948 |

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