

City of Hesperia

STAFF REPORT



DATE: September 20, 2022
TO: Mayor and City Council Members
FROM: Nils Bentsen, City Manager
BY: Casey Brooksher, Director of Administrative Services
SUBJECT: Discussion on Commercial Cannabis Tax

RECOMMENDED ACTION

It is recommended that the City Council review the Commercial Cannabis Tax revenue and provide direction to staff.

BACKGROUND

The following is a timeline of events pertaining to the City's commercial cannabis tax:

- On September 19, 2017, the City Council adopted Ordinance No. 2017-15 and 2017-16 creating regulations pertaining to medical cannabis and recognizing State License Type M-Type 9, Non-Storefront Retailers; limited to delivery services to medical marijuana patients.
- On June 19, 2018, the City Council directed staff to prepare a Cannabis Business Tax ordinance for consideration to send to the voters at the then regularly held election occurring on November 06, 2018.
- At that election, the majority of voters approved Ballot Measure T, allowing for the taxation of commercial cannabis operations within the City. The approved ballot measure provided for the taxation of 1% to 6% on the gross revenue of the commercial cannabis businesses.
- On December 18, 2018, the City Council determined that gross receipt tax would be assessed at four percent (4%).
- On November 19, 2019, the City Council adopted Ordinance 2019-14, which placed a stay on new licenses, as well as placed parameters on the permitting process for those licenses types that were considered 'in process'.

ISSUES/ANALYSIS

Since the inception of the medical cannabis program, there have been a total of 38 applications for permits. Currently, there are 18 active permits, which is 47% of the total applications. The following table summarizes the status of the applications:

Permit Status	
Active Permits	18
In Process Permit	5
Closed	3
Revoked	9
Voided	3
Total Permits	38

Of the 19 active permits, 14 establishments have remitted tax returns showing business activity during Fiscal Year (FY) 2021-22. The following table demonstrates the annual gross receipt tax revenue. Additionally, based on a 4% gross receipt tax, also shown is the assumed total sales of all establishments (tax divided by tax rate).

	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22 Budget	FY 2021-22 Unaudited	FY 2022-23 Budget
Commercial Cannabis Tax	37,686	290,022	702,916	700,000	544,396	481,000
Assumed Total Gross Sales	942,146	7,250,556	17,572,896	17,500,000	13,609,889	12,025,000

As shown in the table, the highest year of sales occurred during FY 2020-21. FY 2021-22 experienced a reduction of 23%, with a total tax revenue of \$544,396. The FY 2022-23 Budget further assumes a 12% reduction from FY 2021-22, for a projected amount of \$481,000.

The FY 2022-23 General Fund revenue budget is \$44,295,907, of which cannabis tax revenue is 1.1% of the total. When considering all revenue of \$144,010,399, cannabis tax is 0.3% of the total for FY 2022-23.

Finally, based on the 4% gross receipt tax, for every \$100,000 of incremental revenue that the General Fund were to receive, the gross sales would need to increase by \$2.5 million.

FISCAL IMPACT

There is no fiscal impact associated with this report, as the taxes are figured into the FY 2022-23 Budget.

ALTERNATIVES

1. Provide direction to staff.

ATTACHMENTS

None