

ITEM 5.3

CITY MANAGER'S REPORT NOVEMBER 18, 2024 CITY COUNCIL SPECIAL MEETING

ITEM: CANNABIS REVENUE ALLOCATION

RECOMMENDATION: Adopt a Resolution to Approve Cannabis Revenue Allocation

SUMMARY:

On July 11, 2022, Council approved a development agreement for operation of the City's first cannabis dispensary. The development agreement established terms related to the operation of the business, specifically, monthly fee payments of 2% of gross receipts from online orders and delivery sales and 5% of gross receipts from onsite retail sales. The development agreement outlines that the fee may be appropriated for any lawful purpose at the discretion of the City Council and may be devoted to: drug awareness programs, recreational programs, public safety programs, and programs to address food insecurity and hunger in the City.

The City has collected the fees via the Cannabis Business Tax Remittance Form on a monthly basis as outlined in the development agreement. The fees are deposited into the General Fund and per the development agreement the "City shall keep strictly confidential all statements of revenue furnished by Operator related to operation of the Business, except as otherwise required by law. In particular, the City will exercise its right to withhold such documents under Government Code section 6254, subdivisions (i) and (n)." Since there is only one cannabis dispensary operator, the City does not have the ability to average or aggregate the revenue information. Staff is preparing for the next biennial budget cycle and seeking direction on the percentage of revenue collected that can be allocated to each of the program areas as identified in the development agreement. Staff is presenting two options for Council to allocate the fee payment; Option 1 is to allocate 50% to the Parks and Recreation Department and 50% to the Police Department, Option 2 is to allocate the fee payment at a different allocation as Council considers appropriate. The four programs identified in the development agreement fall within each of these two City departments.

BACKGROUND:

A series of changes to State law, including the passage of Proposition 64 in 2016, allowed adults to legally use and possess cannabis and created a framework for legal commercial cannabis activities. As with alcohol and tobacco sales, the intent behind legalizing, regulating, and taxing retail cannabis was to make it safer to use, mitigate its negative impacts, and raise tax revenue. The legalization of cannabis businesses led to questions about how the City could best control, regulate, and tax retail cannabis activity, and what it should do with the new tax revenue stream. The

**CITY MANAGER'S REPORT
NOVEMBER 18, 2024 CITY COUNCIL SPECIAL MEETING
CANNABIS REVENUE ALLOCATION**

development agreement provides programs that the revenue collected can be applied towards.

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Staff is preparing for the next biennial budget cycle and seeking direction on the percentage of revenue collected that can be allocated to each of the program areas as identified in the development agreement.

REASON FOR RECOMMENDATION:

Staff is recommending Council allocate the cannabis fee revenue 50% to the Parks and Recreation Department and 50% to the Police Department because the four programs identified in the council approved development agreement fall within these City departments.

FISCAL IMPACT:

There is no fiscal impact associated with this Council action. Staff will proceed with Council direction and return to Council for approval of any related budget amendment if needed.

ATTACHMENTS:

- A. Resolution Approving the Cannabis Revenue Allocation

**CITY MANAGER'S REPORT
NOVEMBER 18, 2024 CITY COUNCIL SPECIAL MEETING
CANNABIS REVENUE ALLOCATION**

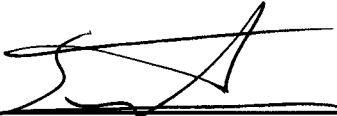
APPROVALS:



Thomas Hedegard
Deputy City Manager

11/13/2024

Date



Salvador Navarrete
City Attorney

11-13-2024

Date



Stephen J. Salvatore
City Manager

11.14.24

Date

RESOLUTION NO. 24-_____

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF LATHROP TO APPROVE CANNABIS REVENUE ALLOCATION

WHEREAS, a series of changes to State law, including the passage of Proposition 64 in 2016, allowed adults to legally use and possess cannabis and created a framework for legal commercial cannabis activities; and

WHEREAS, the legalization of cannabis businesses led to questions about how the City could best control, regulate, and tax retail cannabis activity, and what it should do with the new tax revenue stream; and

WHEREAS, on July 11, 2022, Council approved a development agreement for operation of the City's first cannabis dispensary. The development agreement established terms related to the operation of the business, specifically, monthly fee payments of 2% of gross receipts from online orders and delivery sales and 5% of gross receipts from onsite retail sales; and

WHEREAS, the development agreement outlines that the fee may be appropriated for any lawful purpose at the discretion of the City Council and may be devoted to: drug awareness programs, recreational programs, public safety programs, and programs to address food insecurity and hunger in the City; and

WHEREAS, the The City has collected the fees via the Cannabis Business Tax Remittance Form on a monthly basis as outlined in the development agreement. The fees are deposited into the General Fund and pursuant to the development agreement, the "City shall keep strictly confidential all statements of revenue furnished by Operator related to operation of the Business, except as otherwise required by law. In particular, the City will exercise its right to withhold such documents under Government Code section 6254, subdivisions (i) and (n)." Since there is only one cannabis dispensary operator the City does not have the ability to average or aggregate the revenue information to provide Council revenue totals;

NOW, THEREFORE, BE IT RESOLVED that this City Council does hereby allocate the cannabis fee revenue 50% to the Parks and Recreation Department and 50% to the Police Department because the four programs identified in the council approved development agreement fall within these two City departments.

The foregoing resolution was passed and adopted this 18th day of November 2024, by the following vote of the City Council:

AYES:

NOES:

ABSTAIN:

ABSENT:

Sonny Dhaliwal, Mayor

ATTEST:

APPROVED AS TO FORM:



Teresa Vargas, City Clerk

Salvador Navarrete, City Attorney

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