



Cannabis Revenue Update

ITEM 5.3 - PRESENTATION

NOVEMBER 18, 2024



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.
- ❑ 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.



Development Agreement Fee

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:

1. Drug awareness programs
2. Recreational programs
3. Public safety programs
4. Programs to address food insecurity and hunger in the City



Development Agreement Fee

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.



Recommendation

- ❑ Staff recommends that the City 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.
- ❑ Another option 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. Each of these program areas will be enhanced via these funds in the next biennial budget.