



Legislation Text

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Report regarding adoption of a resolution adjusting the cannabis business license tax rate set forth in Section 6.16.037 of the South San Francisco Municipal Code, consistent with the authority granted by the voter approved Ordinance No. 1556. (*Christina Crosby, Interim Director of Finance*)

RECOMMENDATION

Staff recommends the City Council adopt a resolution adjusting the cannabis business license tax set forth in Section 6.16.037 of the South San Francisco Municipal Code, consistent with the authority granted by the voter approved Ordinance No. 1556.

BACKGROUND/DISCUSSION

On November 7, 2018, a majority of the City's voters approved Ordinance No. 1556 imposing an excise tax on the privilege of conducting business within the City, pursuant to Article XIIC, section 2(b) of the California Constitution. Revenues from the cannabis business tax will be for unrestricted general revenue purposes and will go into the City's general fund and can be used for any legitimate government purpose.

A summary of the current rates by type of cannabis operation are provided in the table below:

| | City's Current Rate | Consultant's Recommended Rate | Maximum Rate under Ordinance No. 1556 |
|----------------------|---------------------|-------------------------------|---------------------------------------|
| Testing | 1% | 1% | 2.5% |
| Cultivation | 1% | 2% | 4% |
| Distribution | 1% | 2% | 3% |
| Manufacturing | 1% | 3% | 5% |
| Delivery-Only | 1% | 4% | 5% |
| All Other Operations | 1% | 4% | 5% |

The ordinance adopted Section 6.16.037 of the South San Francisco Municipal Code which established a minimum rate of one percent (1%) of gross receipts for all commercial cannabis operations with varying maximum rates of two and one-half percent (2.5%) of gross receipts for testing, three percent (3%) of gross receipts for distribution, four percent (4%) of gross receipts for cultivation, and five percent (5%) of gross receipts for manufacturing, delivery-only, and all other commercial cannabis operations. Section 6.16.037 of the South San Francisco Municipal Code further authorizes City Council to adjust by resolution or ordinance the cannabis business license tax rates within the voter approved authorized rates.

In a study dated May 17, 2019 (Attachment 1), the City's consultant Cohere Insights LLC recommended varying minimum rates of one percent (1%) of gross receipts for testing, two percent (2%) of gross receipts for cultivation and distribution, three percent (3%) of gross receipts for manufacturing, and four percent (4%) of gross receipts for delivery-only and all other commercial cannabis operations. The City's consultant clarified that charging a uniform rate for all commercial cannabis operations would restrict the industry in the City

because there are different profit margins and levels of competition for each type of commercial cannabis operation.

FISCAL IMPACT

As of March 7, 2019, the Planning Commission has approved a conditional use permit for three commercial cannabis operations: two delivery-only operations (Make Your Mark SSF; The Loaded Bowl LLC) and one distribution operation (Green Light Distribution, LLC). None of the businesses are currently in operation but are in the process of obtaining state licenses. If the proposed resolution is adopted by City Council, the two approved delivery-only operations will be subject to a cannabis business license tax rate adjustment from one percent (1%) of gross receipts to four percent (4%) of gross receipts. Similarly, the one approved distribution operation will be subject to a cannabis business license tax rate adjustment from one percent (1%) of gross receipts to two percent (2%) of gross receipts.

RECOMMENDATION

Staff recommends City Council adjust the cannabis business license tax rate within the authorized rates granted by the voter approved ordinance to further consistency with the recommendation of the City's consultant as follows:

- One percent (1%) of gross receipts for cannabis testing operations;
- Two percent (2%) of gross receipts for cannabis cultivation and distribution operations;
- Three percent (3%) of gross receipts for cannabis manufacturing operations; and
- Four percent (4%) of gross receipts for cannabis delivery-only operations and all other commercial cannabis business.