



THE CITY OF SAN DIEGO

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

Date Issued: August 22, 2016

IBA Report Number: 16-31

City Council Docket Date: N/A

Item Number: N/A

FISCAL IMPACT STATEMENT

Measure N: Non-Medical Cannabis Business Tax

This measure would establish a Cannabis Business Tax (CBT) on non-medical cannabis (marijuana) businesses in the City of San Diego to raise revenue for general governmental purposes of the City. Because non-medical cannabis businesses are currently illegal in California, this measure is contingent on the passage of Proposition 64, the Adult Use of Marijuana Act, which also appears on the November 2016 ballot. Should both items be approved by voters, the CBT would become effective after certification of the election results. Should Proposition 64 fail to be approved by the voters statewide, the local CBT measure would become null and void.

Approval of this measure would establish a gross receipts tax on non-medical cannabis businesses that operate or provide services within the City, including retail stores, delivery services, cultivators, and distributors. Upon passage of the measure, the CBT rate would be set at 5% of gross receipts. On July 1, 2019, the tax rate would increase to 8%. The City Council would have the authority to either decrease or increase the CBT by ordinance at any time, subject to a maximum rate of 15%.

This measure's impact would be limited to the effects of a City-imposed gross receipts tax on non-medical cannabis. It would not affect other State-imposed taxes, nor would it affect land use regulations related to medical or non-medical cannabis businesses.

Fiscal impacts associated with this ballot measure include increased General Fund revenue from CBT paid to the City, as well as increased General Fund expenditures on administrative costs related to tax collection. These increased revenues and costs depend on a number of unknown factors, making them difficult to project. These variables include:

- The number of non-medical cannabis businesses permitted in the City, which has yet to be determined, and the rate at which the industry develops.
- The consumer demand for non-medical cannabis within the San Diego region, including availability in neighboring jurisdictions.
- The price of non-medical cannabis, which may change over time.

For illustrative purposes, the City and County of Denver, CO, which has roughly half the population of the City of San Diego, currently taxes non-medical cannabis sales. In 2015, Denver reported gross retail cannabis sales (excluding medical) of approximately \$220 million from an average of 128 retail outlets. Adjusting Denver's sales for San Diego's population gives an estimated hypothetical sales figure for San Diego of \$440 million. If the proposed CBT were applied to this amount at the initial rate of 5%, the tax would raise approximately \$22 million annually. At 8%, annual revenue under this scenario would be approximately \$35 million. Actual revenue would be significantly less or more depending on the unknown factors described above.

While administrative costs are uncertain and would vary based on the number of regulated cannabis businesses, the City Treasurer estimates CBT administration costs could necessitate increased contractual expenditures and the hiring of six new positions at a cost of approximately \$650,000 annually.