



Merced, California Next Steps and Strategies for Successful Implementation of Cannabis-Related Taxes and Regulations

Presented by:

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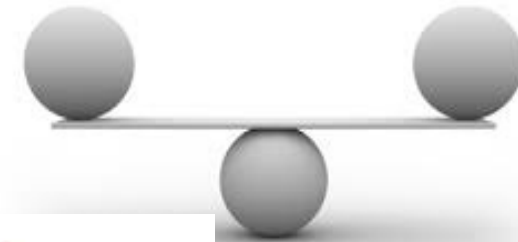
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Introduction

- SCI Consulting Group
- John Bliss, President
- Neil Hall, Cannabis Group Leader

- Overview
- Interactive
- Unbiased
- Questions and Answers



Dynamic History of Cannabis in US

- Medical & Industrial use of Cannabis until 1937...

- Post Prohibition attitude changes

Harry Anslinger



Bureau of Prohibition

Federal Bureau of Narcotics



- Marihuana Tax Act of 1937

(This Ban was Opposed by American Medical Association)



Illegal Cannabis in US

- Boggs Act of 1951
- Narcotics Control Act of 1956
 - First-time cannabis possession with no stamp tax:
 - 2 – 10 years
 - Up to \$20,000 fine
- Controlled Substances Act of 1970
 - Schedule 1 classification



"Legalization" of Cannabis in US



- The Cole Memo (2013)
 - 8 criteria to maintain State's right to control
- The Rohrabacher-Farr Amendment (2014)
 - Prevents funding for the DOJ or DEA to use arresting or prosecuting patients, caregivers, and businesses that are acting in compliance with state medical marijuana laws
- U.S vs. McIntosh (2016)
 - 9th Circuit Court of Appeals reaffirms Rorabacher-Farr



Recent History of Cannabis in California

- 1996 - Proposition 215
 - Authorized medical cannabis use
- 2015 - The Medical Marijuana Regulation and Safety Act
 - Three bills co-joined AB 243, AB 266, SB 643
 - Now known as "*MERSA*"
 - Provides needed structure and clarity
 - Allows for local control
 - SB 837 MCRSA
- 2016 - Proposition 64
 - Known as the "*AUMA*"
 - Authorized non-medical cannabis use





Some MCRSA highlights

- Provides much-needed regulatory structure to medical cannabis industry!
 - Defines regulatory roles and license types
 - Prevents vertical integration to avoid monopolization of market
 - Allows “for profit” cannabis activity
 - Requires implementation of “seed to sale” tracking
 - Requires testing with specific requirements
 - (Prohibits testing facilities from holding any other license type)
 - Creates Bureau of Medical Cannabis Regulation within Department of Consumer Affairs
 - Licenses to be issued by 2018
 - Allows local taxation, health and safety regulations and fee
 - Disallows local sales tax

19316. (a) *Pursuant to Section 7 of Article XI of the California Constitution, a city, county, or city and county may adopt ordinances that establish additional standards, requirements, and regulations...*

Growing Support: Proposition 64 Voting Results

- Statewide – 57.1%
- Proposition 64 local voting results:
 - Merced County = 50.5% Yes
 - City of Merced = 55.8% Yes

Some Common Vocabulary

MERSA = Medical = Prop 215

Prop 64 = AUMA = Non-Medical = Recreational



What is AUMA?

- AUMA is an acronym for Adult Use of Marijuana Act also known as Prop 64
- The formal title is Control, Regulate and Tax Adult Use of Marijuana Act
- Designed to “dovetail” with MERSA (*for Medical cannabis*)
- Proposed by Dr. Donald Lyman and Michael Sutton
 - Dr. Lyman is a retired physician and former board member of the California Medical Association
 - Michael Sutton is a conservationist who was selected to be president of the California Fish and Game commission in 2013



AUMA: 19 License Types

- Type 1 = Cultivation; Specialty outdoor; Small
- Type 1A = Cultivation; Specialty indoor; Small
- Type 1B = Cultivation; Specialty mixed-light; Small
- Type 2 = Cultivation; Outdoor; Small
- Type 2A = Cultivation; Indoor; Small
- Type 2B = Cultivation; Mixed-light; Small
- Type 3 = Cultivation; Outdoor; Medium
- Type 3A = Cultivation; Indoor; Medium
- Type 3B = Cultivation; Mixed-light; Medium
- Type 4 = Cultivation; Nursery
- Type 5 = Cultivation; Outdoor; Large
- Type 5A = Cultivation; Indoor; Large
- Type 5B = Cultivation; Mixed-light; Large
- Type 6 = Manufacturer 1
- Type 7 = Manufacturer 2
- Type 8 = Testing
- Type 10 = Retailer
- Type 11 = Distributor
- Type 12 = Microbusiness



AUMA: More on 19 License Types

- Priority for State licenses will be given to:
 - Existing, compliant (with MCRSA) businesses
- License must have document differentiation from medical
- Controlling interests of Prop. 64 license types must have been continuous California resident since January 1, 2015 (expires end of 2019)
- Only a State license required for AUMA 64, both required for MERSA
- Same as MERSA licenses...well, almost:
 - Type 12 different: Microbusiness vs. Transporter
 - Type 5 is available after 2023
 - Type 9 is missing – the BCR is investigating creation of one or more non-profit license types
- Amends the Health and Safety Code to allow Industrial hemp



AUMA: Use Highlights

- Must be 21 years old
- Indoor cultivation of 6 plants for personal use allowed
- Outdoor cultivation may be prohibited
- Adults may possess 28.5 grams of cannabis plant material and 8 grams of concentrate
- Allows local taxation and health and safety regulation
 - State excise tax of 15% on commercial medical and recreational
 - State cultivation tax of \$9.25 on flower/\$2.75 on non-flower plant leaf for commercial medical and recreational



AUMA: More Use Highlights

- Bans alcohol and cigarette retailers from selling marijuana
- Employers can still require drug-free workplaces
- Onsite consumption can be allowed
- Landlords can prohibit
- The Board shall not make any grants to local governments that have banned the cultivation, including personal cultivation or retail sale of marijuana or marijuana products pursuant to Section 26200....



AUMA: Governmental Structure Highlights



- Creates Bureau of Marijuana Control within the Department of Consumer Affairs to oversee all license types except those assigned to DPH and DFA
- Department of Public Health oversees manufacturing and testing
- Department of Food and Agriculture oversees all cultivation

AUMA: Personal Use - Cultivation



- Indoor:

".... no city, county or city and county may completely prohibit persons engaging in the actions and conduct inside a private residence, or inside an accessory structure to a private residence located upon the grounds of a private residence that is fully enclosed and secure."

- Outdoor:

".... a city, county or city and county may completely prohibit persons engaging in the actions and conduct outdoors upon the grounds of a private residence."

- For purposes of this section, "private residence" means a house, an apartment unit, a mobile home, or other similar dwelling."

6 Key Elements of Cannabis Implementation

1. Community Research and Outreach (*Meetings & Surveys*)
2. Health and Safety Regulations (*Ordinance*)
3. Marketplace Selections (*Application process*)
4. Full Cost Recovery (*Application, CUP & Regulatory Fees*)
5. Revenue (*Taxation Ballot Measure*)
6. Monitoring and Compliance (*As Defined by Ordinance*)



The Big Three of the Cannabis Industry

Retail and Delivery



Cultivation



Manufacturing



...and the Supporting Activities

Testing



Distribution



Transporting



1. Fees for Full Cost Recovery

- Full cost recovery of all agency costs
 - Staffing, processing, review, inspection, background checks, video monitoring, etc.
- Conduct Proposition 26-compliant fee study
- Collect:
 - Application fees
 - Conditional use permit fees
 - Renewal fees
 - Annual business license fees



2. Taxation for General Fund Revenue

- General fund enhancement through taxation
- Requires balloted tax measure
- Tax Methodology
 - Gross receipts
 - Square footage
 - Inventory weight
 - other
- Collections issues



How Much Taxation?

- Typical BOE sales tax: 8% to 9.5%
- +
- AUMA 15% Gross Receipts
- +
- AUMA \$9.25/oz. on flower + \$2.75/oz. on non-flower plant leaf
- +
- Local taxes (5% to 20%)

= About 25% to 40% taxation is typical





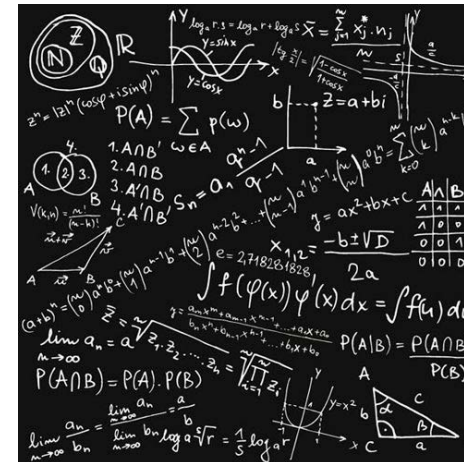
How Much Revenue?

- SCI's rule-of-thumb revenue formula:
 - Based upon statewide empirical analysis

$$\text{Predicted annual general fund revenue} = (\text{Agency Population}) * (\$10 \text{ to } \$20)$$

Example:

- City Population = 100,000
- Annual Tax = \$1,000,000 to \$2,000,000



Revenue Factors

- Local Merced revenue: Estimate between \$800,000 and \$1.6 million per year based on 7-10% gross receipts tax rate
- Revenue factors:
 - Marketing
 - Demand
 - Competition
 - Price
 - Tax level



Revenue Realities

- Reasonable
- Sustainable
- Legally justifiable



City of Merced - Timeline for Success

<u>TENTATIVE DATE</u>	<u>TASKS TO BE COMPLETED</u>	<u>RESPONSIBLE</u>
April 17	<ol style="list-style-type: none"> 1. Kick-Off No. 2 – Staff/Department Heads 2. As needed meetings with Council Members and Mayor 3. Prop 64 discussion – Basic presentation to Council 	SCI
Apr/May	Field trip – Harborside, testing lab and nursery (if possible)	CITY STAFF / SCI
Apr 25	Initial outreach materials: FAQs, informational, etc. to City	CITY STAFF / SCI
May 9	<ol style="list-style-type: none"> 1.) Stakeholder Meeting 2.) Community Meeting 	SCI
Jun 1	Draft CUP process plan & draft regulatory fees to City for review Draft regulations (Ordinance) to City for review	SCI
July 10	<ol style="list-style-type: none"> 3.) Stakeholder Meeting 4.) Public Meeting 	CITY STAFF/SCI
Aug 7	Set dates for public hearing	CITY COUNCIL
Aug 15	Application plan and packet to City for review	SCI
Aug 21	1 st reading – public hearing	CITY COUNCIL
Sept 5	2 nd reading – public hearing	CITY COUNCIL
Sept 6	Application plan and packet approved by City	CITY STAFF
Oct 1	Open pre-registration	CITY STAFF
Oct 15	Applications are available	CITY STAFF
Dec 18	Issuance of all four licenses	CITY STAFF/SCI



Questions and Answers



1. Cannabis Ingestion Methods

Inhalation: Smoking



2. Cannabis Ingestion Methods

Inhalation: Vaping



3. Cannabis Ingestion Methods

Oral: Tinctures and Ingestible Oils



Oral: Edibles and Drinks



3. Cannabis Ingestion Methods

Topicals:



Retail Dispensaries



Retail Dispensaries



Retail Dispensaries





Retail Dispensaries



Retail Dispensaries



Retail Dispensaries




Retail Dispensaries



Cannabis Labelling



Cannabis Facts		Little Amsterdam
	CERTIFIED CANNABACEUTICALS™ Tested On: October 12, 2010 Tested By: The Werc Shop	
Strain Name: Bubba Kush (KB)		May cause drowsiness. Alcohol may intensify this effect. Do not use while operating a car or heavy machinery. Keep out of reach of children. FOR MEDICAL USE ONLY. IN COMPLIANCE WITH H&S CODE 11362.5 IN ACCORDANCE WITH CA H&S CODE SEC. 11362.5(B)(1)(A) & 11362.7(H)
Strain Type: Indica	Wt. %	
Δ⁹-THC Maximum:	16.1 %	
Δ ⁹ -THCA	17.4 %	
Δ ⁹ -THC	0.82 %	
CBD Maximum:	0.25 %	
CBDA	0.04 %	
CBD	0.22 %	
CBN:	0.33 %	
<small>Cannabaceuticals™ and the "CC" are trademarks of The Werc Shop, Inc.</small>		

Delivery Services



Cannabis Concentrate Manufacturing

Cumberland, Maryland



Cannabis Concentrate Manufacturing





The Cannabis Plant

- Varieties
- Properties





Cultivation



Cultivation

