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OFFICE OF THE CITY CLERK
OAKLAND

2019 SEP 12 AM 3:19 **AGENDA REPORT**

TO: Sabrina B. Landreth
City Administrator

FROM: Adam Benson
Director of Finance

SUBJECT: Cannabis Business Tax Rates
Amendments Supplemental

DATE: August 30, 2019

City Administrator Approval

Date:

9/12/19

RECOMMENDATION

Staff Recommends That The City Council Receive An Informational Report Regarding The Proposed Ordinances To The Oakland Municipal Code Title 5, Chapter 5.04, Section 5.04.480, Medical Cannabis Businesses, And Section 5.04.481, Non-Medical Cannabis Businesses, To Reduce The Tax Rates For Cannabis Businesses.

REASON FOR SUPPLEMENTAL

This supplemental report is in response to the new proposed Business Tax rates on cannabis businesses.

EXECUTIVE SUMMARY

The focus of this informational report is to provide the City Council with the financial impact to the Fiscal Year ("FY") 2019-21 Adopted Policy Budget on 12 proposed changes to the Business Tax rates on cannabis businesses:

- 1) Councilmember Fortunato Bas' proposal to expand the City Council's June 18, 2019 adoption of the new fixed tax rate of 0.12% to include cannabis businesses generating up to either \$1 million or \$1.5 million in gross receipts. The proposal further calls for the financial impact between marginal and non-marginal tax rates and if the new fixed tax rate of 0.12% applies to only qualified businesses eligible for the City of Oakland's Cannabis Equity Program¹.
- 2) Council President Kaplan's proposal to reduce the existing tax rates of 5% and 10% to a fixed tax rate of 1% on cannabis businesses generating up to either \$1.5 million or \$2 million in gross receipts. The proposal further calls for the financial impact between marginal and non-marginal tax rates and if the reduction of the existing tax rates excludes cannabis businesses engaging in-door cannabis cultivation operation.

¹ Update on Cannabis Equity Program, March 19, 2019

The FY 2019-21 Adopted Policy Budget includes General Purpose Fund revenues derived from cannabis business activities of approximately \$14.6 million in year one (FY 2019-20) and \$15.7 million in year two (FY 2020-21).

Staff is recommending against the adoption of all proposals.

Councilmember Fortunato Bas' proposed expansion of the new fixed tax rate of 0.12% would have the negative financial impact estimate of \$4.8 million to \$12.8 million in the current two-year adopted budget. Staff currently cannot accurately forecast the financial impact of the new fixed tax rate of 0.12% to qualified businesses eligible for the City of Oakland's Cannabis Equity Program. This is because the City has received a large amount of applications, but only few operators have obtained final permits.

Council President Kaplan's proposed reduction of existing tax rates of 5% and 10% to a fixed tax rate of 1% on cannabis businesses generating up to either \$1.5 million or to \$2 million in gross receipts would have the negative financial impact estimate of \$5.6 million to \$12.5 million in the current two-year adopted budget. Excluding cannabis businesses engaging in in-door cultivation operations² would have a negative financial impact of approximately \$10.6 million to \$11.7 million.

BACKGROUND / LEGISLATIVE HISTORY

On June 18, 2019, the City Council adopted amendments to Title 5, Chapter 5.04, Sections 5.04.480 and 5.04.481 of the Oakland Municipal Code. The amendments reduce the effective business license tax rate on cannabis business with total gross receipts of less than or equal to \$500,000 to a new fixed tax rate of 0.12%, or \$1.20 per \$1,000, of gross receipts. The City Council held over discussion of reducing business tax rates on cannabis business with total gross receipts in excess of \$500,000 to a future date.

The following two tables represent the breakdown of different permit types and the number of permits applied by 195 businesses that paid the 2019 Business Tax.

Table 1: Permit types for existing businesses that paid 2019 Business Tax:

Number of Businesses	Delivery & Dispensaries	Cultivation		Distributor	Manufacturing		Transporter	Lab Testing	Total Number of Permits
		Indoor	Outdoor		Volatile	Non-Volatile			
195	87	43	5	73	21	53	8	1	291

² There are 43 cannabis businesses having in-door cultivation operations, 24 of which engage in more than one type of operations. For the purpose of calculating financial impact excluding in-door cannabis operations, only 19 (43-24) cannabis businesses are excluded because in-door cultivation operations are their sole activity.

Table 2: Number of Permits

Number of Permits	Number of businesses	In-door Cultivation Only
One Permit	125	19
Two Permits	42	14
Three Permits	24	8
Four Permits	1	1
Five Permits	0	0
Six Permits	1	1
Closed Businesses	2	0
Total	195	43

ANALYSIS AND POLICY ALTERNATIVES

High Level Summaries:

There are 12 proposed changes to the Business Tax rates on cannabis businesses. The following table summarizes the proposals:

Table 3: Summary of Proposals:

Proposals	Marginal	Non-Marginal	Tax Rates			Equity Business Only	Exclude In-Door Cultivation
			0.12%	1%	5% & 10%		
CM Fortunato Bas	1	0.12% up to \$1M	X			X	
	2	0.12% up to \$1M	X			X	X
	3	0.12% up to \$1M		X			X
	4	0.12% up to \$1.5M	X			X	
	5	0.12% up to \$1.5M	X			X	X
	6	0.12% up to \$1.5M		X			X
CM Kaplan	7	1% up to \$1.5M	X			X	
	8	1% up to \$1.5M	X			X	X
	9	1% up to \$1.5M		X			X
	10	1% up to \$2M	X			X	
	11	1% up to \$2M	X			X	X
	12	1% up to \$2M		X			X

The following table details the negative financial impact of approximately \$4.8 million to \$12.8 million to the FY 2019-21 Adopted Policy Budget.

Table 4: Financial Impact to FY 2019-21 Adopted Policy Budget:

Proposals		Marginal	Non-Marginal	Equity Business Only	Exclude In-Door Cultivation	FY 2019-20 Impact	FY 2020-21 Impact	Total
CM Fortunato Bas	1	0.12% up to \$1M	X			(\$4,972,982)	(\$5,370,767)	(\$10,343,749)
	2	0.12% up to \$1M	X		X		Not Available	
	3	0.12% up to \$1M		X		(\$2,297,753)	(\$2,481,548)	(\$4,779,301)
	4	0.12% up to \$1.5M	X			(\$6,165,031)	(\$6,658,167)	(\$12,823,199)
	5	0.12% up to \$1.5M	X		X		Not Available	
	6	0.12% up to \$1.5M		X		(\$3,023,350)	(\$3,265,185)	(\$6,288,534)
CM Kaplan	7	1% up to \$1.5M	X			(\$5,470,294)	(\$5,907,859)	(\$11,378,153)
	8	1% up to \$1.5M	X		X	(\$5,113,731)	(\$5,522,774)	(\$10,636,504)
	9	1% up to \$1.5M		X		(\$2,671,813)	(\$2,885,529)	(\$5,557,341)
	10	1% up to \$2M	X			(\$6,003,781)	(\$6,484,018)	(\$12,487,799)
	11	1% up to \$2M	X		X	(\$5,645,775)	(\$6,097,376)	(\$11,743,151)
	12	1% up to \$2M		X		(\$3,283,482)	(\$3,546,125)	(\$6,829,606)

Detailed Financial Impact:

Proposal 1: Expand the recently approved fixed tax rate of 0.12% to include cannabis businesses generating up to \$1 million in gross receipts. Cannabis businesses generating more than \$1 million would be subject to pay the existing tax rates of 5% and 10% *only on the amount of gross receipts in excess of \$1 million.*

Table 5, Proposal 1: Marginal Tax Rate For Businesses Generating \$1 Million or More.

Summary = By Total Revenue Each Business Pays based on Tax Rates - (WITH Marginal for Business Generating \$1M or more)								
	Gross Receipts Category	Existing Tax Rates	Number of Businesses	Existing Revenue (FY 2018-19)	New Tax Rates	Estimated Revenue	Difference	Combined FYs 2019-21
	Up to \$500K	5% & 10%	150	\$770,351	0.12%	\$11,224	(\$759,127)	
CM Fortunato Bas	Up to \$1M	5% & 10%	12	\$718,000	0.12%	\$14,400	(\$703,600)	
	Over \$1M	5% & 10%	33	\$12,255,740	5% & 10%	\$9,580,511	(\$2,675,230)	
	Total		195	\$13,744,091		\$9,606,135	(\$4,137,956)	
	Surplus/(Deficit) Relative to FY 2019-20 Adopted Revenues (\$14,567,893)							(\$4,972,982)³
Surplus/(Deficit) Relative to FY 2020-21 Adopted Revenues (\$15,733,167)							(\$5,370,767)^{3,4}	

³ Exclude \$11,224 in the up to \$500K category since the estimated revenues have already been accounted for as part of the adopted revenues by the City Council on June 18, 2019

⁴ The Adopted Revenue for FY 2020-21 increased by 8% from FY 2019-20. The deficit for FY 2020-21 is therefore increased by an additional 8% from the deficit in FY 2019-20.

Proposal 2: Expand the recently approved fixed tax rate of 0.12% to businesses that qualify for City of Oakland's Cannabis Equity Program generating up to \$1 million in gross receipts. As mentioned above, staff currently cannot accurately forecast the financial impact of this scenario.

Proposal 3: Expand the recently approved fixed tax rate of 0.12% to include cannabis businesses generating up to \$1 million in gross receipts. Cannabis businesses generating more than \$1 million would not benefit from the reduced tax rate of 0.12%. Rather, *these businesses would still be subject to pay the existing tax rates of 5% and 10% on the entire amount of gross receipts.*

Table 6, Proposal 3: Marginal Tax Rate for Businesses Generating Up to \$1 Million. Non-Marginal Tax Rate for Businesses Generating \$1 Million or More.

Summary = By Total Revenue Each Business Pays based on Tax Rates - (WITHOUT Marginal for Business Generating \$1M or more)									
	Gross Receipts Category	Existing Tax Rates	Number of Businesses	Existing Revenue (FY 2018-19)	New Tax Rates	Estimated Revenue	Difference	Combined FYs 2019-21	
	Up to \$500K	5% & 10%	150	\$770,351	0.12%	\$11,224	(\$759,127)		
CMI Fortunato Bas	Up to \$1M	5% & 10%	12	\$718,000	0.12%	\$14,400	(\$703,600)		
	Over \$1M	5% & 10%	33	\$12,255,740	5% & 10%	\$12,255,740	\$0		
	Total		195	\$13,744,091		\$12,281,365	(\$1,462,727)		
	Surplus/(Deficit) Relative to FY 2019-20 Adopted Revenues (\$14,567,893)							(\$2,297,753)³	(\$4,779,301)
	Surplus/(Deficit) Relative to FY 2020-21 Adopted Revenues (\$15,733,167)							(\$2,481,548)^{3,4}	

Proposal 4: Expand the recently approved fixed tax rate of 0.12% to include cannabis businesses generating up to \$1.5 million in gross receipts. Cannabis businesses generating more than \$1.5 million would be subject to pay the existing tax rates of 5% and 10% *only on the amount of gross receipts in excess of \$1.5 million.*

Table 7, Proposal 4: Marginal Tax Rate for Businesses Generating \$1.5 Million or More.

Summary = By Total Revenue Each Business Pays based on Tax Rates - (WITH Marginal for Business Generating \$1.5M or more)									
	Gross Receipts Category	Existing Tax Rates	Number of Businesses	Existing Revenue (FY 2018-19)	New Tax Rates	Estimated Revenues	Difference	Combined FYs 2019-21	
	Up to \$500K	5% & 10%	150	\$770,351	0.12%	\$11,224	(\$759,127)		
CMI Fortunato Bas	Up to \$1.5M	5% & 10%	19	\$1,456,197	0.12%	\$27,000	(\$1,429,197)		
	Over \$1.5M	5% & 10%	26	\$11,517,543	5% & 10%	\$8,375,862	(\$3,141,682)		
	Total		195	\$13,744,091		\$8,414,086	(\$5,330,005)		
	Surplus/(Deficit) Relative to FY 2019-20 Adopted Revenues (\$14,567,893)							(\$6,165,031)³	(\$12,823,199)
	Surplus/(Deficit) Relative to FY 2020-21 Adopted Revenues (\$15,733,167)							(\$6,658,167)^{3,4}	

Proposal 5: Expand the recently approved fixed tax rate of 0.12% to businesses that qualify for City of Oakland's Cannabis Equity Program generating up to \$1.5 million in gross receipts. As mentioned above, staff currently cannot accurately forecast the financial impact of this scenario.

Proposal 6: Expand the recently approved fixed tax rate of 0.12% to include cannabis businesses generating up to \$1.5 million in gross receipts. Cannabis businesses generating more than \$1.5 million would not benefit from the reduced tax rate of 0.12%. Rather, *these businesses would still be subject to pay the existing tax rates of 5% and 10% on the entire amount of gross receipts.*

Table 8, Proposal 6: Marginal Tax Rate for Businesses Generating Up To \$1.5 Million. Non-Marginal Tax Rate for Businesses Generating \$1.5 Million or More.

Summary = By Total Revenue Each Business Pays based on Tax Rates - (WITHOUT Marginal for Business Generating \$1.5M or more)									
	Gross Receipts Category	Existing Tax Rates	Number of Businesses	Existing Revenue (FY 2018-19)	New Tax Rates	Estimated Revenues	Difference	Combined FYs 2019-21	
	Up to \$500K	5% & 10%	150	\$770,351	0.12%	\$11,224	(\$759,127)		
CM Fortunato Bas	Up to \$1.5M	5% & 10%	19	\$1,456,197	0.12%	\$27,000	(\$1,429,197)		
	Over \$1.5M	5% & 10%	26	\$11,517,543	5% & 10%	\$11,517,543	\$0		
	Total		195	\$13,744,091		\$11,555,768	(\$2,188,324)		
	Surplus/(Deficit) Relative to FY 2019-20 Adopted Revenues (\$14,567,893)							(\$3,023,350)³	
	Surplus/(Deficit) Relative to FY 2020-21 Adopted Revenues (\$15,733,167)							(\$3,265,185)^{3,4}	(\$6,288,534)

Proposal 7: Reduce the existing tax rates of 5% and 10% to a fixed tax rate of 1% on cannabis businesses generating up to \$1.5 million in gross receipts. Cannabis businesses, including indoor cannabis operations, generating more than \$1.5 million would be subject to pay the existing tax rates of 5% and 10% *only on the amount of gross receipts in excess of \$1.5 million.*

Table 9, Proposal 7: Marginal Tax Rate for Businesses Generating \$1.5 Million or More.

Summary = By Total Revenue Each Business Pays based on Tax Rates - (WITH Marginal for Business Generating \$1.5M or more)									
	Gross Receipts Category	Existing Tax Rates	Number of Businesses	Existing Revenue (FY 2018-19)	New Tax Rates	Estimated Revenue	Difference	Combined FYs 2019-21	
	Up to \$500K	5% & 10%	150	\$770,351	1.00%	\$93,537	(\$676,814)		
CM Kaplan	Up to \$1.5M	5% & 10%	19	\$1,456,197	1.00%	\$285,000	(\$1,171,197)		
	Over \$1.5M	5% & 10%	26	\$11,517,543	5% & 10%	\$8,719,062	(\$2,798,482)		
	Total		195	\$13,744,091		\$9,097,599	(\$4,646,493)		
	Surplus/(Deficit) Relative to FY 2019-20 Adopted Revenues (\$14,567,893)							(\$5,470,294)	
	Surplus/(Deficit) Relative to FY 2020-21 Adopted Revenues (\$15,733,167)							(\$5,907,859)⁴	(\$11,378,153)

Proposal 8: Reduce the existing tax rates of 5% and 10% to a fixed tax rate of 1% on cannabis businesses, excluding in-door cultivation operations, generating up to \$1.5 million in gross receipts. Cannabis businesses, excluding in-door cultivation operations, generating more than \$1.5 million would be subject to pay the existing tax rates of 5% and 10% *only on the amount of gross receipts in excess of \$1.5 million*. Tax rates for in-door cultivation cannabis businesses remain at 5% and 10% on the entire amount of gross receipts.

Table 10, Proposal 8: Marginal Tax Rate for Businesses Generating Up To \$1.5 Million or More, Excluding In-door Cultivations.

Summary = By Total Revenue Each Business Pays based on Tax Rates - (WITH Marginal for Business Generating \$1.5M or more, EXCLUDING In-door Cultivation)										
	Gross Receipts Category	Existing Tax Rates	Number of Businesses	Existing Revenue (FY 2018-19)	New Tax Rates	Estimated Revenue	Difference	Combined FYs 2019-21		
CM Kaplan	Up to \$500K	5% & 10%	150	\$770,351	1.00%	\$213,090	(\$557,261)			
	Up to \$1.5M	5% & 10%	19	\$1,456,197	1.00%	\$408,259	(\$1,047,938)			
	Over \$1.5M	5% & 10%	26	\$11,517,543	5% & 10%	\$8,832,814	(\$2,684,729)			
	Total		195	\$13,744,091		\$9,454,162	(\$4,289,929)			
	Surplus/(Deficit) Relative to FY 2019-20 Adopted Revenues (\$14,567,893)							(\$5,113,731)		
	Surplus/(Deficit) Relative to FY 2020-21 Adopted Revenues (\$15,733,167)							(\$5,522,774)⁴	(\$10,636,504)	

Proposal 9: Reduce the existing tax rates of 5% and 10% to a fixed tax rate of 1% on all cannabis businesses generating up to \$1.5 million in gross receipts. Cannabis businesses, including in-door cultivation operations, generating more than \$1.5 million would not benefit from the reduced tax rate of 1%. Rather, *these businesses would still be subject to pay the existing tax rates of 5% and 10% on the entire amount of gross receipts*.

Table 11, Proposal 9: Marginal Tax Rate for Businesses Generating Up To \$1.5 Million, Excluding In-door Cultivations. Non-Marginal Tax Rate For Businesses Generating \$1.5 Million or More.

Summary = By Total Revenue Each Business Pays based on Tax Rates - (WITHOUT Marginal for Business Generating \$1.5M or more)										
	Gross Receipts Category	Existing Tax Rates	Number of Businesses	Existing Revenue (FY 2018-19)	New Tax Rates	Estimated Revenue	Difference	Combined FYs 2019-21		
CM Kaplan	Up to \$500K	5% & 10%	150	\$770,351	1.00%	\$93,537	(\$676,814)			
	Up to \$1.5M	5% & 10%	19	\$1,456,197	1.00%	\$285,000	(\$1,171,197)			
	Over \$1.5M	5% & 10%	26	\$11,517,543	5% & 10%	\$11,517,543	\$0			
	Total		195	\$13,744,091		\$11,896,080	(\$1,848,011)			
	Surplus/(Deficit) Relative to FY 2019-20 Adopted Revenues (\$14,567,893)							(\$2,671,813)		
	Surplus/(Deficit) Relative to FY 2020-21 Adopted Revenues (\$15,733,167)							(\$2,885,529)⁴	(\$5,557,341)	

Proposal 10: Reduce the existing tax rates of 5% and 10% to a fixed tax rate of 1% on cannabis businesses generating up to \$2 million in gross receipts. Cannabis businesses, including in-door cannabis operations, generating more than \$2 million are subject to pay the existing tax rates of 5% and 10% *only on the amount of gross receipts in excess of \$2 million.*

Table 12, Proposal 10: Marginal Tax Rate for Businesses Generating \$2 Million or More.

Summary = By Total Revenue Each Business Pays based on Tax Rates - (WITH Marginal for Business Generating \$2M or more)									
	Gross Receipts Category	Existing Tax Rates	Number of Businesses	Existing Revenue (FY 2018-19)		New Tax Rates	Estimated Revenue	Difference	Combined FYs 2019-21
CM Kaplan	Up to \$500K	5% & 10%	150	\$770,351		1.00%	\$93,537	(\$676,814)	
	Up to \$2M	5% & 10%	24	\$2,262,866		1.00%	\$480,000	(\$1,782,866)	
	Over \$2M	5% & 10%	21	\$10,710,874		5% & 10%	\$7,990,575	(\$2,720,299)	
	Total		195	\$13,744,091			\$8,564,112	(\$5,179,979)	
Surplus/(Deficit) Relative to FY 2019-20 Adopted Revenues (\$14,567,893)								(\$6,003,781)	(\$12,487,799)
Surplus/(Deficit) Relative to FY 2020-21 Adopted Revenues (\$15,733,167)								(\$6,484,018) ⁴	

Proposal 11: Reduce the existing tax rates of 5% and 10% to a fixed tax rate of 1% on cannabis businesses, excluding in-door cultivation operations, generating up to \$2 million in gross receipts. Cannabis businesses, excluding in-door cultivation operations, generating more than \$2 million would be subject to pay the existing tax rates of 5% and 10% *only on the amount of gross receipts in excess of \$2 million.* Tax rates for in-door cultivation cannabis businesses remain at 5% and 10% on the entire amount of gross receipts.

Table 13, Proposal 11: Marginal Tax Rate for Businesses Generating Up To \$2 Million or More, Excluding In-door Cultivations.

Summary = By Total Revenue Each Business Pays based on Tax Rates - (WITH Marginal for Business Generating \$2M or more, <u>Excluding</u> In-door Cultivation)									
	Gross Receipts Category	Existing Tax Rates	Number of Businesses	Existing Revenue (FY 2018-19)		New Tax Rates	Estimated Revenue	Difference	Combined FYs 2019-21
CM Kaplan	Up to \$500K	5% & 10%	150	\$770,351		1.00%	\$213,090	(\$557,261)	
	Up to \$2M	5% & 10%	24	\$2,262,866		1.00%	\$718,453	(\$1,544,413)	
	Over \$2M	5% & 10%	21	\$10,710,874		5% & 10%	\$7,990,575	(\$2,720,299)	
	Total		195	\$13,744,091			\$8,922,118	(\$4,821,974)	
Surplus/(Deficit) Relative to FY 2019-20 Adopted Revenues (\$14,567,893)								(\$5,645,775)	(\$11,743,151)
Surplus/(Deficit) Relative to FY 2020-21 Adopted Revenues (\$15,733,167)								(\$6,097,376) ⁴	

Proposal 12: Reduce the existing tax rates of 5% and 10% to a fixed tax rate of 1% on all cannabis businesses generating up to \$2 million in gross receipts. Cannabis businesses generating more than \$2 million would not benefit from the reduced tax rate of 1%. Rather, *these businesses would still be subject to pay the existing tax rates of 5% and 10% on the entire amount of gross receipts.*

Table 14, Proposal 12: Marginal Tax Rate for Businesses Generating Up To \$2 Million, Excluding In-door Cultivations. Non-Marginal Tax Rate for Businesses Generating \$2 Million or More.

Summary = By Total Revenue Each Business Pays based on Tax Rates - (WITHOUT Marginal for Business Generating \$2M or more)									
	Gross Receipts Category	Existing Tax Rates	Number of Businesses	Existing Revenue (FY 2018-19)		New Tax Rates	Estimated Revenue	Difference	Combined FYs 2019-21
CM Kaplan	Up to \$500K	5% & 10%	150	\$770,351		1.00%	\$93,537	(\$676,814)	
	Up to \$2M	5% & 10%	24	\$2,262,866		1.00%	\$480,000	(\$1,782,866)	
	Over \$2M	5% & 10%	21	\$10,710,874		5% & 10%	\$10,710,874	\$0	
	Total		195	\$13,744,091			\$11,284,411	(\$2,459,680)	
	Surplus/(Deficit) Relative to FY 2019-20 Adopted Revenues (\$14,567,893)								(\$3,283,482)
Surplus/(Deficit) Relative to FY 2020-21 Adopted Revenues (\$15,733,167)								(\$3,546,125)⁴	

POLICY ALTERNATIVES

Rather than reducing tax rates for all cannabis businesses, the City Council could target reduced tax rates toward those cannabis businesses that meet the City’s economic development goals, such as reducing racial disparities and helping all Oaklanders achieve economic security. For example, the City Council could reserve tax reductions through a tax incentive program for cannabis businesses that demonstrate one or more of the following:

- Employment of Oakland residents from historically marginalized communities, such as police beats with the highest levels of cannabis enforcement; or
- Employment of women above an established baseline; or
- Partnerships in Oakland Workforce Development Programs; or
- Annual revenue growth above an established baseline as demonstrated in annual gross receipts (revenue share); or
- Significant investment in Oakland buildings; or
- Maintaining a headquarters in Oakland for an extended number of years.

Such an approach can ensure that a cannabis tax reduction produces the desired City economic development goals as opposed to an “across the board” cannabis tax reduction with no certainty of any benefits for the City. Additionally, a tax incentive program allows the City to track industry specific data, which will assist staff in either making appropriate adjustments to regulatory and technical assistance programs or returning to the City Council with legislative proposals to support a thriving cannabis industry.

Beyond providing uncertain benefits, an “across the board” cannabis tax reduction could also exacerbate displacement of non-cannabis businesses. Even with the existing cannabis tax rates, the City has received more than a thousand cannabis permit applications, and the City has locally authorized hundreds of cannabis operations for state licenses. These existing cannabis operations have already contributed to the pressures on non-cannabis businesses

competing for the same spaces. Thus, the City could anticipate even greater pressure on non-cannabis businesses in response to an unmitigated tax reduction that will incentivize further investment in cannabis enterprises in Oakland.

For the above reasons, staff recommends that if the City Council enacts a tax reduction for cannabis businesses, the City Council should structure the tax reductions through targeted incentives tied to the City's economic development goals. Staff is available to assist with the drafting of program guidelines should the City Council pursue this alternative approach.

FISCAL IMPACT

The FY 2019-21 Adopted Policy Budget includes estimated General Purpose Fund revenues derived from cannabis business activities of \$14.6 million in year one and \$15.7 million in year two. Based on the proposed tax structures, the FY 2019-21 Adopted Policy Budget would decrease from a low estimate of approximately \$4.8 million to high estimate of approximately \$12.8 million.

Staff is recommending against the adoption of the proposed changes because of the negative financial impact of approximately \$4.8 million to \$12.8 million to the FY 2019-21 Adopted Policy Budget. If any of the proposed changes is approved, the change would necessitate a cut in services or an identification of alternative funding source to re-balance the FY 2019-21 Adopted Policy Budget.

PUBLIC OUTREACH / INTEREST

No outreach was deemed necessary for this informational report beyond the standard Council agenda noticing procedures.

COORDINATION

This report has been coordinated with the Finance Department, City Attorney's Office, City Administrator's Office and Economic & Workforce Development Department.

SUSTAINABLE OPPORTUNITES

Economic: A reduction of tax rates would allow the City to stay on par with adopted or current tax rates in surrounding jurisdictions and possibly encourage more cannabis businesses to stay or to open in the City. Conversely, the reduction would also result in the lower tax revenue and possibly limit the City's ability to attract and diversify its economic base due to cannabis businesses taking up more industrial buildings and/or warehouses.

Environmental: The most important environmental concerns related to cannabis industry are in the consumption of water and the disposal of unused or discarded waste. Robust regulations regarding the disposal of waste should minimize the impact. The use of precious water resource is, at this time, unavoidable.

Social Equity: The City can design cannabis tax reductions in a manner that reduces racial disparities and helps all Oaklanders achieve economic security.

ACTION REQUESTED OF THE CITY COUNCIL

Staff recommends that the City Council accept this informational report regarding the proposed changes amending Oakland Municipal Code Title 5, Chapter 5.04, Section 480, Medical Cannabis Business, and Section 481, Non-Medical Cannabis Businesses, to reduce the tax rates for cannabis businesses.

For questions regarding this report, please contact Margaret O'Brien, Revenue & Tax Administrator, (510) 238-7480.

Respectfully submitted,



Adam Benson
Director of Finance
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