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AGENDA REPORT

TO: Sabrina B. Landreth
City Administrator

FROM: Adam Benson
Director of Finance

SUBJECT: Cannabis Business Tax Rates
Amendments Supplemental

DATE: October 1, 2019

City Administrator Approval

Date:

10/3/19

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 gross receipts business tax rates on cannabis businesses.

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 two sets of proposed changes to the business tax rates on cannabis businesses and an update on the financial status related to the Technical and Financial Assistance for Equity Program. The proposed changes are:

- A. Councilmember Taylor's proposal to:
 1. Reduce the existing non-medical cannabis tax rate from 10 percent to 8 percent while retaining the medical cannabis tax rate of 5 percent on cannabis businesses engaging in manufacturing, distribution and retail operations;
 2. Retain the existing tax rates of 5 percent on medical cannabis and 10 percent non-medical cannabis on cannabis businesses engaging in cultivation operations;
 3. Expand the June 18, 2019 City Council's adoption of the new fixed tax rate of 0.12 percent to include Cannabis businesses engaging in lab-testing operations;
 4. Expand the June 18, 2019 City Council's adoption of the new fixed tax rate of 0.12 percent to include Equity cannabis businesses generating up to \$1.5 million in gross receipts;
 5. Expand the June 18, 2019 City Council's adoption of the new fixed tax rate of 0.12 percent to include non-equity cannabis businesses generating up to \$500,000 in gross receipts;
 6. Implement a Local Equity Hiring Incentive Program for Equity cannabis businesses generating revenue greater than \$1.5 million in gross receipts; and,

7. Implement a Local Equity Hiring Incentive Program for non-equity cannabis businesses with minimum of 40 total employees.

B. Councilmember Kalb's newly transitional proposed marginal tiered tax rates that would become effective either January 1, 2020 or January 1, 2021; thereafter implement a new set of tax rates for cannabis businesses beginning on January 1, 2022.

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.

For Councilmember Taylor's proposal, as outlined above, the proposed changes would result in the following financial impact:

- For items A.1, A.2 and A.3, the changes would have a collective negative financial impact of approximately \$7.8 million in the current two-year adopted budget;
- For item A.4, the change would have a collectively negative financial impact of approximately \$483,000 in the current two year-adopted budget;
- For item A.5, this proposed change was included in the FY 2019-21 Adopted Policy Budget following the City Council approval of a fixed tax rate of 0.12 percent that is applicable to all cannabis businesses generating \$500,000 or less in gross receipts; and,
- For items A.6 and A.7, the financial impact is unknown. If the proposed Local Equity Hiring Incentive program is approved and begins in January 2020 for the 2020 tax year, cannabis businesses would be required to pay the tax based on the tax rates that are in effect for the 2020 tax year. Businesses would then be eligible to receive a tax reduction in the form of a credit at the time 2021 tax year is due and payable.

Councilmember Kalb's proposed marginal tiered tax rates would have a negative financial impact of approximately -\$2.9 million in FY 2019-20 and -\$8.3 million in FY 2020-21 during the current two-year adopted budget. The financial impact to the proposed tax to begin in January 2022 could be as high as -\$8.5 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 ("OMC"). The amendments reduced 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 percent, 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.

On September 24, 2019, Councilmember Taylor proposed a new set of Cannabis Business Tax rates as part of "Equity Program Tax Incentive Program." Five of the seven items included in the program involve the reduction of tax rates while the remaining two involve tax incentives in the form of tax credit or tax rebate if cannabis businesses meet a certain employment hiring threshold. On the same day Councilmember Fortunato Bas requested for updates on the financial status related to the Technical and Financial Assistance for Equity Program.

On September 26, 2019, Councilmember Kalb requested for the calculations of the financial impact on two proposed changes, one of which is considered a transitional change that would become effective January 1, 2020 and January 1, 2021, and the other would become effective following the transitional proposed change.

ANALYSIS AND POLICY ALTERNATIVES

The FY 2019-21 Adopted Policy Budget contemplated **no changes** to the existing business tax structure of 5 percent on gross receipts derived from medical cannabis and 10 percent on gross receipts derived from non-medical cannabis assessed on cannabis business with total annual gross receipts of \$500,000 or more. Any changes to the business tax that is effective January 1, 2020 will negatively impact both years of the Adopted Fiscal Years 2019-21 Budget.

Councilmember Taylor’s Proposal

Table 1: Equity Program Tax Incentive Program:

		Tax Rate	Tax Deduction
Baseline Tax Rate			
1	Manufacturing, Distribution, and Retail	5% & 8%	
2	Cultivation ¹	5% & 10%	
3	Laboratory & Testing	0.12%	
Equity & Small Business Tax Relief			
4	Equity businesses with revenue up to \$1.5M	0.12%	
5	Non-Equity businesses with revenue up to \$500K	0.12%	
Local Equity Hiring Incentive			
6	Equity Businesses with revenue greater than \$1.5M		Percentage calculation: 1% tax deduction for every 10% of workforce that comes from police beats (TBD) in Oakland with highest levels of cannabis enforcement (minimum tax rate of 2%)
7	Non-equity businesses with minimum of 40 total employees		Percentage calculation: 1% tax deduction for every 10% of workforce that comes from police beats (TBD) in Oakland with highest levels of cannabis enforcement (minimum tax rate of 2%)

¹ For the purpose of providing financial impact, only the person or an entity engaging in cultivation-only operation would be subject to the existing tax rates of 5% and 10%. A person or an entity engages in cannabis business that produces gross receipts from more than one taxable activities (e.g. cultivation, manufacturing, distribution, retail, etc.) would pay the highest tax rate applicable to their operations.

Table 2: Financial Impact to FY 2019-21 Adopted Policy Budget (A.1 – A.3)

Proposal No.	Gross Receipts Category	Existing Tax Rates	Number of Businesses	Existing Revenue (FY 2018-19)	New Tax Rates	Estimated Revenue	Difference	Combined FYs 2019-21
Already Enacted	Up to \$500K (All Cannabis Businesses, including Cultivation-Only Activity) ²	5% & 10%	150	\$770,351	0.12%	\$11,224	(\$759,127)	
Baseline Tax Rate								
1	Above \$500K (Manufacturing, Distribution & Retail)	5% & 10%	41	\$12,463,200	5% & 8%	\$10,478,914	(\$1,984,286)	
2	Above \$500K (Cultivation Only Activity)	5% & 10%	3 ³	\$298,453	5% & 10%	\$298,453	\$0	
3	Above \$500K (Laboratory Testing)	5% & 10%	1	\$212,088	0.12%	\$2,965	(\$209,123)	
	Total		195	\$13,744,091		\$10,780,331	(\$2,193,409)	
Surplus/(Deficit) Relative to FY 2019-20 Adopted Revenues (\$14,567,893)							(\$3,787,562) ⁴	
Surplus/(Deficit) Relative to FY 2020-21 Adopted Revenues (\$15,733,167)							(\$4,090,409) ^{4 5}	(\$7,877,971)

Table 3: Financial Impact to FY 2019-21 Adopted Policy Budget (A.4 – A.5)

Proposal No.	Gross Receipts Category	Existing Tax Rates	Number of Businesses	Existing Revenue (FY 2018-19)	New Tax Rates	Estimated Revenue	Difference	Combined FYs 2019-21
4	Equity Businesses with Revenue up to \$1.5M	5% & 10%	3	\$235,823	0.12%	\$3,702	\$232,120	
Surplus/(Deficit) Relative to FY 2019-20 Adopted Revenues (\$14,567,893)							(\$232,120) ⁴	
Surplus/(Deficit) Relative to FY 2020-21 Adopted Revenues (\$15,733,167)							(\$250,690) ^{4 5}	(\$482,810)
5	Non-Equity Businesses with Revenue Up to \$500K	5% & 10%	Included FY 2019-21 Adopted Budget Policy		0.12%	Included FY 2019-21 Adopted Budget Policy		

² There are 48 (43 indoor, 5 Outdoor) cannabis businesses having cultivation operations, 27 of which engage in more than one type of operations. Of the remaining 21 (43-27), 18 generated less than \$500,000 in gross receipts for 2019 Tax Year and therefore would likely qualify for the newly approved tax rate of 0.12% for 2020 Tax Year if the gross receipts remain at or below \$500,000.

³ Only three (3) cannabis businesses engaged in cultivation-only operation for 2019 Tax Year and generated more than \$500,000 in gross receipts. If the gross receipts remain above \$500,000 for 2020 Tax Year, these would be the only three businesses paying the existing tax rates of 5% and 10%.

⁴ Exclude \$11,224 in the Up to \$500K category since the estimated revenues have already been included in FY 2019-21 Adopted Budget Policy.

⁵ The FY 2019-21 Adopted Budget Policy included an increase of 8% for FY 2020-21 from FY 2019-20. The deficit for FY 2020-21 is therefore increased by an additional 8%.

Table 4: Financial Impact to FY 2019-Adopted Policy Budget (A.6 – A.7)

Local Equity Hiring Incentive		
6	Equity Businesses with Revenue greater than \$1.5M	<u>Proposed:</u> 1% reduction for every 10% workforce from Police Beats; Minimum Tax Rate: 2%
		<u>Qualification:</u> Equity Businesses are to pay 2020 Tax in full and apply for credit for 2021 Tax upon verification
		<u>Financial Impact:</u> FY 2020-21; Amount: Unknown
7	Non-equity Businesses with Minimum 40 employees	<u>Proposed:</u> 1% reduction for every 10% workforce from Police Beats; Minimum Tax Rate: 2%
		<u>Qualification:</u> Equity Businesses are to pay 2020 Tax in full and apply for credit for 2021 Tax upon verification
		<u>Financial Impact:</u> FY 2020-21; Amount: Unknown

Issues with Retaining Existing Medical and Non-Medical Tax Rates

It is important to note that Councilmember Taylor’s proposal retains the imposition of medical (5 percent) and non-medical (recreational or adult-use) (10 percent) tax rates on non-retail cannabis businesses. Non-retail cannabis businesses cannot discern how much, if any, of their product will be distributed for medical or recreational use. Retail cannabis businesses are able to request and validate state-issued Medical Marijuana Identification Card (“MMIC”) ⁶ for the purpose of identifying and separating the two tax rates while the non-retailers, such as cultivators, manufacturers and distributors, do not have a mean to identify and separate their gross receipts for the application of the two tax rates because they do not engage business directly with the end-users or the consumers. Therefore, non-retailers would have difficulty in reporting the gross receipts that are subject to either or both tax rates.

For the 2019 Tax Year, the Administration implemented an administrative policy that enabled the separation of the gross receipts for the application of both tax rates on non-retailers by analyzing the gross receipts remitted by all retailers and determining the “universal” percentages ⁷ of gross receipts that non-retailers needed to pay.

Councilmember Kalb’s Proposed Transitional Tax Structure

The FY 2019-21 Adopted Policy Budget contemplated no changes to the existing business tax structure of 5 percent on gross receipts derived from medical cannabis and 10 percent on gross receipts derived from non-medical cannabis assessed on cannabis business with total annual gross receipts of \$500,000 or more. Any changes to the business tax that is effective January 1, 2020 will negatively impact both years of the Adopted Fiscal Years 2019-21 Budget.

Councilmember Kalb’s proposal would create three sets of tax rates that would change at the beginning of each of the three calendar years beginning January 1, 2020, January 1, 2021, and January 1, 2022. The proposed changes for the first two calendar years (2020 & 2021) are captured in Table 5, and the third calendar year is captured in Table 8 (2022).

⁶ The validation of MMIC is also used for the purpose of exempting Sales and Use Tax.

⁷ The breakdown of percentages for 2019 Tax Year were 28.33% of gross receipts for Medical Tax Rate and 71.67% for Non-Medical Tax Rate.

Table 5: Councilmember Kalb's Proposed Tax Structure Transitional, Effective January 1, 2020 and January 1, 2021

Proposed Oakland Cannabis Business Tax Structure - TRANSITIONAL*				
Total Gross Receipts	Cannabis Retail Businesses (including retail delivery), and Indoor Cultivation	Cannabis Manufacturing, Packaging & Storage, and Outdoor Cultivation	Wholesale Distribution and Transportation (non-retail)	
Up to \$500,000 in gross receipts	0.12% of gross receipts	0.12% of gross receipts	0.12% of gross receipts	Already enacted for \$500K
Over \$500,000 and up to \$1,500,000	0.12% of gross receipts up to \$500,000 + 5% of gross receipts (over \$500,000 up to \$1,500,000)	0.12% of gross receipts up to \$500,000 + 4.5% of gross receipts (over \$500,000 up to \$1,500,000)	0.12% of gross receipts up to \$500,000 + 4% of gross receipts (over \$500,000 up to \$1,500,000)	Effective Jan. 2020
Over \$1,500,000 and up to \$5,000,000	5% of total gross receipts (no marginal rates)	5% of total gross receipts (no marginal rates)	4% of total gross receipts (no marginal rates)	Effective Jan. 2021
Over \$5,000,000	5% of total gross receipts (no marginal rates)	5% of total gross receipts (no marginal rates)	4% of total gross receipts (no marginal rates)	Effective Jan. 2021

*Effective Jan. 2021, no distinction between medical and non-medical (adult use); Cannabis Testing taxed at same rate as non-cannabis businesses.

Tables 6 below reflects the impact on the General Purpose Fund in FY 2019-20 if the tax structure being contemplated under this proposal is adopted to become effective on January 1, 2020.

The proposed tax structure contemplated to begin on January 1, 2020 would reduce the tax rates for cannabis grossing more than \$500,000 up to \$1.5 million in gross receipts. Cannabis businesses grossing more than \$5 million are to pay the existing tax rates of 5 percent for medical and 10 percent for non-medical. In other words, businesses grossing over \$5 million in gross receipts do not benefit from the proposed reduction of tax rates.

If Councilmember Kalb's proposed transitional tax were to become effective on January 1, 2020, the General Purpose Fund adopted revenues for FY 2019-20 would decrease by \$2.9 million.

Table 6: Councilmember Kalb's Proposed Tax Structure Transitional, Effective January 1, 2020

Table 6: Proposed Ordinance When Applied to FY 2019-20 Revenues				
Tiered and/or Marginal Tax Rates Based on Gross Receipts				
(Rates Effective January 2020) Forecasted FY 2019-20 Revenues				\$14,567,893
Category	Retail & Indoor Cultivation	Manufacturing & Outdoor Cultivation	Distribution & Transporter	Total
Up to \$500K	\$6,600	\$1,800	\$3,000	\$11,400
\$500K+ - \$1.5M	\$234,893	\$141,539	\$15,819	\$392,251
Business Grossing Over \$1.5M pay existing 5 % & 10 % Tax Rates				
\$1.5M+ - \$5M	\$2,457,579	\$522,443	\$692,544	\$3,672,565
Over \$5M	\$4,944,065	\$1,164,230.39	\$1,524,595	\$7,632,890
Total	\$7,636,537	\$1,828,212	\$2,232,957	\$11,697,707
Surplus/(Deficit) Relative to FY 2019-20 Proposed Revenues				(\$2,870,186)⁸

Tables 7 below reflects the impact on the General Purpose Fund in FYs 2021 if the tax structure being contemplated under this proposal is adopted to become effective on January 1, 2021. The proposed tax structure contemplated to begin on January 1, 2021 expands the reduction to include cannabis businesses grossing more than \$5 million in gross receipts. The expansion would allow cannabis engaging in retail, cultivation and manufacturing to pay a fixed tax rate of 5 percent while cannabis engaging in distribution and transporting would pay a fixed tax rate of 4 percent.

Cannabis business grossing more than \$500,000 and up to \$1.5 million in gross receipts would continue to pay the reduced tax rates that would have been either adopted on January 1, 2020 or to be adopted to begin on January 1, 2021.

Table 7: Councilmember Kalb's Proposed Tax Structure Transitional, Effective January 1, 2021

Table 7: Proposed Ordinance When Applied to FY 2020-21 Revenues				
Tiered and/or Marginal Tax Rates Based on Gross Receipts				
(Rates Effective January 2021) Forecasted FY 2020-21 Revenues				\$15,733,167
Category	Retail & Indoor Cultivation	Manufacturing & Outdoor Cultivation	Distribution & Transporter	Total
Up to \$500K	\$7,128	\$1,944	\$3,240	\$12,312
\$500K+ - \$1.5M	\$253,684	\$152,862	\$17,084	\$423,631
\$1.5M+ - \$5M	\$1,686,914	\$358,257	\$411,783	\$2,456,954
Over \$5M	\$3,098,620	\$714,894	\$767,315	\$4,580,829
Total	\$5,046,218	\$1,226,013	\$1,196,183	\$7,461,414
Surplus/(Deficit) Relative to FY 2020-21 Proposed Revenues				(\$8,271,753)⁹

⁸ Exclude \$11,224 in the Up to \$500K category since the estimated revenues have already been accounted for as part of the FY 2019-21 Adopted Budget Policy

⁹ Exclude \$12,312 in the Up to \$500K category since the estimated revenues have already been accounted for as part of the FY 2019-21 Adopted Budget Policy

If Councilmember Kalb's proposed transitional tax were to become effective on January 1, 2020, the General Purpose Fund adopted revenues for FY 2020-21 would decrease by \$8.28 million.

The Transitional Proposed Tax Structure, as outlined in Table 5, and would create a negative fiscal impact of approximately -\$2.87 million in FY 2019-20 and -\$8.27 million in FY 2020-21 of the FY 2019- 21 Adopted Policy Budget.

Councilmember Kalb's Proposed Post Transitional Tax Structure

Table 8: Councilmember Kalb's Proposed Tax Structure, Effective January 1, 2022

Proposed Oakland Cannabis Business Tax Structure*				
Total Gross Receipts	Cannabis Retail Businesses (including retail delivery), and Indoor Cultivation	Cannabis Manufacturing, Packaging & Storage, and Outdoor Cultivation	Wholesale Distribution and Transportation (non-retail)	
Up to \$500,000 in gross receipts	0.12% of gross receipts	0.12% of gross receipts	0.12% of gross receipts	Already enacted for \$500K
Over \$500,000 and up to \$1,500,000	0.12% of gross receipts up to \$1,000,000 + 3% of gross receipts over \$1,000,000 and up to \$1,500,000	0.12% of gross receipts up to \$1,000,000 + 2.5% of gross receipts over \$1,000,000 and up to \$1,500,000	0.12% of gross receipts up to \$1,000,000 + 1.5% of gross receipts over \$1,000,000 and up to \$1,500,000	Effective Jan. 2022
Over \$1,500,000 and up to \$5,000,000	3% of gross receipts up to \$1,500,000 + 4% of gross receipts over \$1,500,000 up to \$5,000,000	2.5% of gross receipts up to \$1,500,000 + 3.5% of gross receipts over \$1,500,000 up to \$5,000,000	1.5% of gross receipts up to \$1,500,000 + 2.0% of gross receipts over \$1,500,000 up to \$5,000,000	Effective Jan. 2022
Over \$5,000,000	5% of gross receipts (no marginal rates)	2.5% of gross receipts up to \$1,500,000 + 3.5% of gross receipts over \$1,500,000 and up to \$5,000,000 + 4.5% of gross receipts over \$5,000,000	1.5% of gross receipts up to \$1,500,000 + 2.0% of gross receipts over \$1,500,000 and up to \$5,000,000 + 3% of gross receipts over \$5,000,000	Effective Jan. 2022

*No distinction between medical and non-medical (adult use); Cannabis Testing taxed at same rate as relevant non-cannabis businesses.

If Councilmember Kalb's proposed transitional tax structure, as outlined in Table 5, were to be adopted, the subsequent FY 2021-23 General Purpose Fund revenues derived from cannabis business activities would need to be adjusted downward to reflect the lowered tax revenues that would have been realized in during FY 2019-21. The proposed budget for FY 2021-23 would be approximately \$7.70 million, which includes an inflation adjustment upward of 3 percent from the lowered revenue estimated to be collected during FY 2020-21.

If Councilmember Kalb's proposed transitional tax structure was NOT adopted, but the Proposed Post Transitional Tax Structure, as outlined in Table 8, were to be adopted to begin on January 1, 2022, the subsequent FY 2021-23 General Purpose Fund revenues derived from cannabis business activities would need to be significantly adjusted downward to reflect the financial impact of \$8.51 million, which is based from the prior FY 2019-21 Adopted Policy Budget with an inflation adjustment upward of 3 percent from the estimated revenue included in the FY 2019-21 Adopted Budget Policy.

Table 9: Councilmember Kalb's Proposed Tax Structure, Effective January 1, 2022

Proposed Ordinance When Applied to FY 2021-22 Revenues				
Marginal Tax Rates Based on Gross Receipts				
(Rate Effective January 2022) Forecasted FY 2021-22 Revenues				\$16,205,162.01
Category	Retail & Indoor Cultivation	Manufacturing & Outdoor Cultivation	Distribution & Transporter	Total
Up to \$1M	\$7,341.8	\$2,002.3	\$3,337.2	\$12,681
\$1M+ - \$1.5M	\$261,295.0	\$157,448.2	\$17,596.8	\$436,340
\$1.5M+ - \$5M	\$1,737,521.0	\$369,004.6	\$424,136.9	\$2,530,663
Over \$5M	\$3,191,578.4	\$736,341.0	\$790,334.5	\$4,718,254
Total	\$5,197,736	\$1,264,796	\$1,235,405	\$7,697,938
Surplus/(Deficit) Relative to FY 2021-22 Proposed Revenues				(\$8,507,224)¹⁰

Financial Impact Beyond Estimated Revenues

The proposed changes in the tax rates, moving from the existing medical and non-medical tax rates to a segmented tax structure depending on the type of operations and a multi-tiered level of gross receipts, mean that the Administration would need to re-configure the computer system to allow for such versatile applications of various tax rates. Staff, in consultation with the City's current software provider, estimated that the costs for the changes would be in the range of \$250,000 to \$350,000 depending on the complexity and the versatility of the configuration.

In addition to the reconfiguration of the local tax software we anticipate an additional 2-3 staff would be required to audit and ensure compliance with the program. This is estimated at \$350,000-\$500,000 per year.

Technical And Financial Assistance For Equity Program Update

On April 9, 2019, staff presented the Finance & Management Committee with an update of the Cannabis Equity Program. For a comprehensive look at the program, please visit <https://cao-94612.s3.us-west-2.amazonaws.com/news/April-9-Cannabis-Equity-Info-Report.pdf>.

- The 2017 Resolution No. 86633 authorized \$400,000 for consultants to provide technical assistance to equity applicants and to administer a revolving loan program. The Resolution further directed \$3 million in new cannabis tax revenue to be collected in 2018 to fund the revolving loan program;
- In 2017-2018, \$100,000 of the \$400,000 authorized under the 2017 Resolution No. 86633 was spent toward the technical assistance programming;
- In 2018-2019, an additional \$100,000 was spent on the technical assistance programming and another \$100,000 was spent toward the development and implementation of the revolving loan program;

¹⁰ Exclude \$12,681 in the Up to \$500K category since the estimated revenues have already been accounted for as part of the FY 2019-21 Adopted Budget Policy

- In the FY 2019-21 Adopted Budget, the City Council reallocated an additional \$500,000 of funding for technical assistance that was unspent from the cannabis equity funds;
- After undergoing another competitive Request for Proposal process, the City Administrator's Office recently finalized contracts with both the City's technical assistance consultant, Make Green Go, and loan program administrator, Elevate Impact, for a two-year term for an amount not to exceed \$180,000 per contract to continue the programs; and,
- The City had also applied for grants from the State for its equity program. Should the City receive the grants, additional funding will be made for these programs.

Workforce Development Update

Since the Oakland cannabis industry is in early phases of development, no established workforce development program has been created or implemented for cannabis specific industries. Workforce Development staff are currently researching workforce development programs targeted for the cannabis industries and are finalizing a workforce needs survey targeted for Oakland cannabis businesses.

There is approximately \$200,000 within the Oakland Workforce Development Board that could be utilized for cannabis related workforce development direct programming or leveraging for a larger cannabis workforce development program. Workforce Development staff have been working in conjunction with City Administrator's office on grant opportunities from the State of California for cannabis equity programs, which will have a workforce development component. If the City is successful in obtaining grant funding from the State of California, a more detailed workforce development program will be presented to the Oakland Workforce Development Board and City Council.

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 two sets of proposed tax structures, the FY 2019-21 Adopted Policy Budget would decrease from a low estimate of approximately \$482,810 (Item 4 of Councilmember Taylor's proposal) to a high estimate of approximately \$8.27 million (Councilmember Kalb's Proposed Tax Structure Transitional, Effective January 1, 2021).

Staff is recommending against the adoption of the proposed changes because of the negative financial impact 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.

In addition to the fiscal impact to the FY 2019-21 Adopted Policy Budget, the financial impact related to the re-configuration of the computer system to accommodate the changes would be a one-time cost ranging from \$250,000 to \$350,000 depending on the changes and the versatility the computer system needs to have in order to administer various tax programs.

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 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,



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Director of Finance
Finance Department

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