

City of Arts & Innovation

City Council Memorandum

City of Arts & Innovation

TO: HONORABLE MAYOR AND CITY COUNCIL **DATE: OCTOBER 22, 2024**

FROM: FINANCE DEPARTMENT **WARDS: ALL**

COMMUNITY & ECONOMIC DEVELOPMENT

DEPARTMENT

SUBJECT: RESOLUTION ADOPTING THE PREVIOUSLY APPROVED CANNABIS BUSINESS TAX
AT THE RATE OF EIGHT PERCENT (8%) OF GROSS RECEIPTS OF ALL ENGAGED
IN CANNABIS BUSINESSES IN THE CITY

ISSUE:

Recommend that the City Council adopt a resolution adopting the previously approved Cannabis Business Tax at the rate of eight percent (8%) of gross receipts of all cannabis businesses within the City of Riverside.

RECOMMENDATION:

That the City Council:

1. Adopt a resolution adopting the previously approved Cannabis Business Tax at the rate of eight percent (8%) of gross receipts of all engaged in cannabis businesses in the City; and
2. Authorize the City Manager, or his designee, to implement the Cannabis Business Tax at the rate of eight percent (8%) of gross receipts of all engaged in cannabis businesses in the City.

COMMITTEE RECOMMENDATION:

The Finance Committee met on September 11, 2024, with Chair Hemenway and Member Falcone present, to consider and provide input on the proposed Cannabis Business Tax rate of eight percent (8%). After discussion, the Committee unanimously voted to recommend that the City Council adopt a resolution adopting the previously approved Cannabis Business Tax at the rate of eight percent (8%) of gross receipts of all engaged in cannabis businesses in the City and authorize the City Manager, or his designee, to implement the Cannabis Business Tax at the rate of eight percent (8%) of gross receipts of all engaged in cannabis businesses in the City.

BACKGROUND:

On February 28, 2023, the City Council introduced and on March 14, 2023, adopted Ordinance 7628, amending Title 5 (Business Taxes, Licenses and Regulations) of the Riverside Municipal Code (RMC), and replacing Chapter 5.77 (Cannabis Business Activities) in its entirety, Ordinance 7629 amending Title 9 (Peace, Safety and Morals) of the RMC, and Ordinance 7630 amending Title 19 (Zoning) of the RMC.

- Chapter 5.77 of the RMC regulates Cannabis Business Activities in the City of Riverside, including the types of businesses and maximum number permitted within the City. The City of Riverside allows up to 14 storefront retail cannabis businesses as well as an unlimited number of manufacturing, distribution, and testing laboratories. All commercial cultivation operations and microbusinesses are prohibited. In addition to the types and number of cannabis businesses permitted, Chapter 5.77 also provides for Council to establish the procedure guidelines and review criteria as well as fees related to the process and permit.

On October 17, 2023, the City Council adopted Storefront Retail Commercial Cannabis Business Permit Procedure Guidelines and Application Review Criteria (Guidelines and Criteria). The Guidelines and Criteria outline the procedures to apply for a Storefront Retail Commercial Cannabis Business Permit including a requirement for the applicant to pay an Application Fee. Applicants receiving Provisional Approval are required to submit a Site Review Fee as part of the final review process.

On October 24, 2023, the City Council adopted an Ordinance amending Chapter 3.30 of the RMC to add an additional category to the Schedule of Regulations, Products and Services and a Resolution amending the City's Fees and Charges Schedule providing for a Storefront Retail Commercial Cannabis Business Permit Application Fee of \$13,842 per application and Site Review Fee of \$17,864 per application.

On November 28, 2023, the City Council adopted a resolution calling for a municipal election to place the City of Riverside Cannabis Business Tax Measure on the Ballot whereby the City Council desired to adopt an ordinance imposing a Cannabis Business Tax of up to ten (10%) percent of gross receipts on every cannabis business operating in the City. The City Council introduced and adopted Ordinance 7661, adding Chapter 5.78 (Cannabis Business Tax) to the RMC, to be operative and enforceable upon approval by the voters.

On April 9, 2024, the City Council adopted a resolution declaring the results of the election, indicating that 61.47% of voters supported Ballot Measure B, "Cannabis Business Tax".

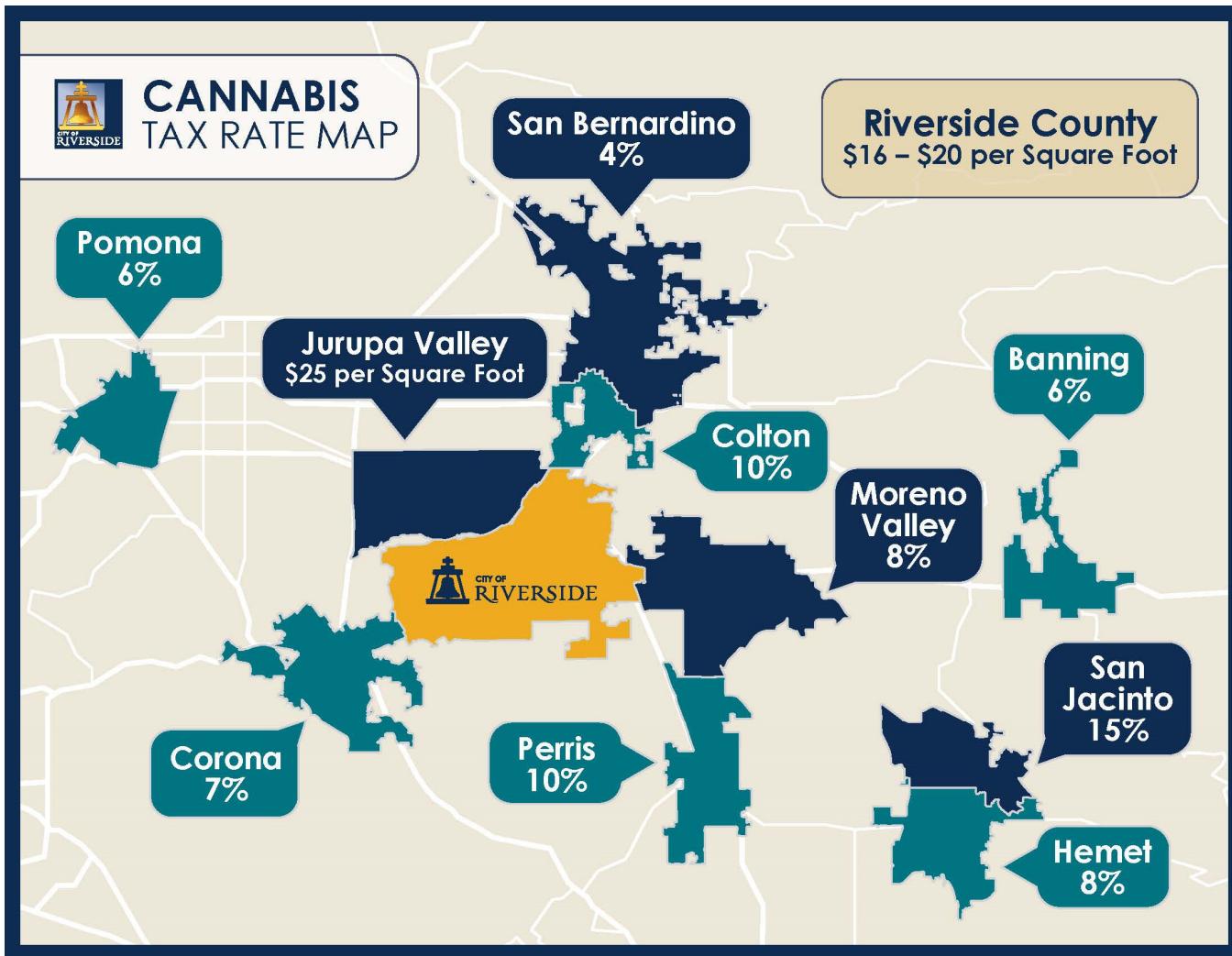
DISCUSSION:

A majority of voters supported the Cannabis Business Tax Measure during the General Municipal Election held on March 5, 2024. RMC Chapter 5.78 (Cannabis Business Tax), enacted as part of the Cannabis Business Tax Measure, established the maximum rate for all cannabis businesses at ten percent (10%).

RMC Section 5.78.080 provides that the City Council may "in its discretion, at any time by resolution, implement a lower tax rate for all cannabis businesses or establish differing tax rates for different categories of cannabis businesses, as defined in such resolution, subject to the maximum rate of ten (10) percent of gross receipts." Staff has prepared the attached Resolution

for City Council's consideration to adopt the Cannabis Business Tax rate for all cannabis businesses in the City at eight percent (8%). This Cannabis Business Tax rate under consideration by the City Council would be in addition to the fifteen percent (15%) California cannabis excise tax and the eight and three quarters percent (8.75%) sales tax imposed on all cannabis businesses in the City of Riverside.

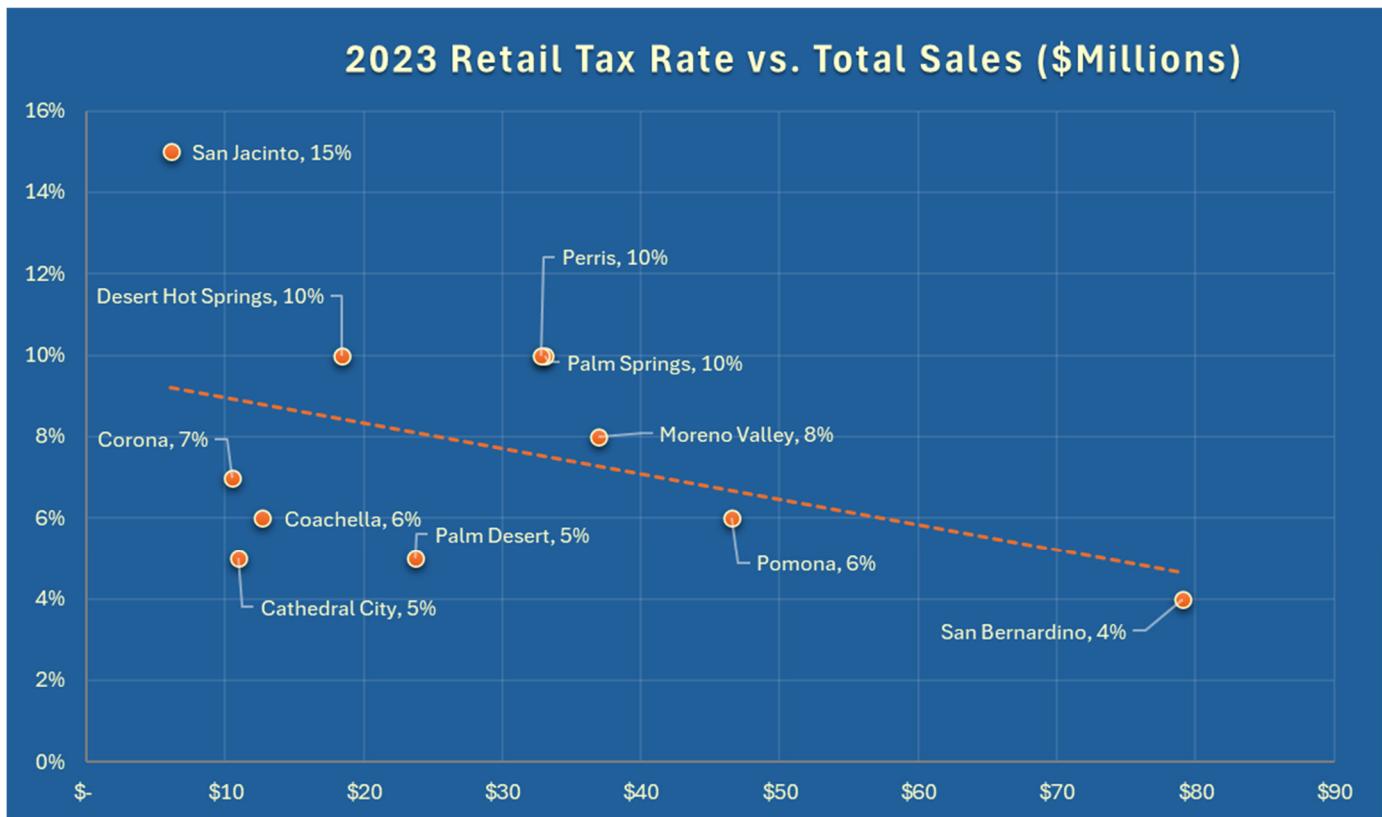
Following voter approval of the Cannabis Business Tax Measure and the establishment of a regulatory framework for permitting storefront retail commercial cannabis businesses, staff is now recommending an appropriate Cannabis Business Tax rate. A key component of this recommendation involves analyzing tax rates of neighboring jurisdictions to ensure the City's rate is competitive. Attachment 1 provides an analysis of voter approved and current cannabis tax rates for all permissible categories of cannabis businesses, per RMC Chapter 5.78, in cities and unincorporated areas within approximately 30 miles of the City of Riverside. Below is this analysis highlighting current storefront retail cannabis tax rates only, in map format.



Storefront retail cannabis tax rates among neighboring jurisdictions vary between four percent (4%) and fifteen percent (15%), with an average rate amounting to eight percent (8%), excluding Jurupa Valley and Riverside County which employ a cost per square foot model. Jurisdictions with lower rates may experience faster business growth and a high sales volume; however, these rates may yield lower revenues compared to higher cannabis tax rates. Jurisdictions with higher rates

may be focusing on maximizing revenue for local services and programs; however, higher rates may deter some businesses or consumers, resulting in lower sales.

The California Department of Tax and Fee Administration provides total cannabis sales data by city. Staff performed an analysis comparing total sales for calendar year 2023 versus the implemented retail tax rate for the same group of neighboring jurisdictions. As several of the jurisdictions had limited or no sales data for calendar year 2023, staff expanded the analysis to include all jurisdictions with storefront retail cannabis tax rates within the County of Riverside. This analysis is provided in the following chart.



While the relationship between cannabis tax rates and sales volume can vary, there appears to be some correlation based on this group of cities. It is important to note that Cathedral City and Palm Desert reduced their retail cannabis tax rates from 10% to 5% during Calendar 2023; therefore, the sales volume for both cities is a combination of earnings at 5% and 10% tax rates. Higher tax rates in the 10-15% range may see increased tax revenues, but the higher rates may also affect growth and deter consumers, potentially reducing overall sales volume. Lower rates in the 4-6% range can stimulate growth and result in higher sales volume, but the lower rates may not compensate for the lower per-unit revenue. Cities with moderate tax rates in the 7-8% range appear to balance revenue generation with maintaining a higher sales volume.

In addition to analyzing the relationship between cannabis tax rates and sales volume, staff evaluated population data and the number of active storefront retail dispensaries for each city within the County of Riverside. Attachment 2 provides total sales, tax rate, population, and number of active storefront dispensaries for each jurisdiction with storefront retail cannabis tax rates within the County of Riverside. While some correlation was identified between cannabis tax rates and sales volume, there appears to be little to no correlation between population, the number of active storefront retail dispensaries, and tax rates, based on this group of cities.

While researching neighboring jurisdictions, staff determined that retail cannabis tax rates at three Coachella Valley cities, Cathedral City, Palm Desert, and Palm Springs, have been reduced from 10% to 5% over the last 18 months. At one time in calendar year 2023, over 60 storefront retail cannabis dispensaries were in operation at the five Coachella Valley cities that permit cannabis retail operations, serving a total resident population of approximately 225,000. This level of oversaturation has been a factor in Coachella Valley cities reducing their cannabis tax rates and has led to one city, Palm Springs, passing an urgency ordinance for a moratorium of new and transfers of cannabis storefront retail dispensaries. Prior to the moratorium, the City of Palm Springs had no limit on the number of cannabis businesses, which resulted in the city permitting approximately one retail dispensary per every 2,100 residents. As displayed in Attachment 2 and on the Cannabis Tax Rate Map provided earlier in this report, this level of oversaturation is specific to Coachella Valley.

Based on the comparative analysis of cannabis tax rates in neighboring jurisdictions and the analysis performed on the relationship between the retail cannabis tax rate and total sales by jurisdiction, staff is recommending a Cannabis Business Tax rate of eight percent (8%) for all cannabis businesses in the City of Riverside. Staff believes this proposed rate will maintain competitiveness with neighboring cities and unincorporated Riverside County while maximizing revenues for city projects and local services.

Implementation and Next Steps

Should the City Council adopt the recommended resolution and Cannabis Business Tax of eight percent (8%) or desire to implement a different rate up to and including the maximum rate of ten percent (10%), the new rate will be effective immediately. A detailed implementation plan will be developed, to include:

- Implementation of RMC Chapter 5.78
- Development of a cannabis business license tax registration form
- Development of a cannabis business tax remittance form
- Development of audit compliance requirements
- Public communication with retail storefront businesses

Chapter 5.77 of the RMC regulates Cannabis Business Activities in the City of Riverside, including the types of businesses and maximum number permitted within the City. The City of Riverside allows up to 14 storefront retail cannabis businesses as well as an unlimited number of manufacturing, distribution, and testing laboratories. However, a permitting process for non-retail cannabis businesses is not currently in place and is scheduled to be considered at a future date. Staff recommends that the Cannabis Business Tax rate for non-retail businesses be further evaluated upon the development of the permitting process for non-retail businesses.

STRATEGIC PLAN ALIGNMENT:

This item contributes to **Strategic Priority 3 – Economic Opportunity and Goal 3.3: Cultivate a business climate that welcomes innovation, entrepreneurship, and investment.** It also supports **Strategic Priority 5 - High Performing Government and Goal 5.4: Achieve and maintain financial health by addressing gaps between revenues and expenditures and aligning resources with strategic priorities to yield the greatest impact.**

This item aligns with each of the five Cross-Cutting Threads as follows:

1. **Community Trust** – The development of the Cannabis Business Tax is a transparent process that has included a ballot measure approved by the community.
2. **Equity** – The Cannabis Business Tax will be applied to all cannabis businesses established within the City.
3. **Fiscal Responsibility** – The thoughtful and deliberate nature of the recommended Cannabis Business Tax demonstrates the City's commitment to responsible management of the City's financial resources.
4. **Innovation** – The recommended Cannabis Business Tax is an innovative solution to generate general revenues for citywide needs.
5. **Sustainability & Resiliency** – The recommended Cannabis Business Tax will help the City to generate additional revenues that will ensure its sustainability and resiliency.

FISCAL IMPACT:

The potential revenue generated by the recommended Cannabis Business Tax rate of eight percent (8%) is projected to generate approximately \$1.5 to \$2.0 million annually with all 14 storefront retail cannabis businesses in operation. Actual revenue generated will depend on the number of businesses in operation and the gross revenues generated by cannabis businesses operating within the City. Included in the Fiscal Year 2024-2026 adopted biennial budget is projected revenue of \$500,000 for FY 2024/25, reflecting the initial growth phase of cannabis sales.

Prepared by: Julie Nemes, Deputy Finance Director
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Certified as to availability of funds: Kristie Thomas, Finance Director/Assistant Chief Financial Officer
Approved by: Edward Enriquez, Assistant City Manager/Chief Financial Officer/City Treasurer
Approved as to form: Phaedra A. Norton, City Attorney

Concurs with:



Steve Hemenway, Chair
Finance Committee

Attachments:

1. Cannabis Tax Rates Comparison
2. County of Riverside Cannabis Research
3. Resolution
4. Presentation