



October 18, 2023

Dear Cannabis Facility Operator:

During the City Council meeting on July 5, 2023, the Council voted to approve recommendations to amend cultivation tax liabilities and operating conditions for cannabis facilities. They are outlined below.

Staff Recommendations:

1. Permanently modify the definition of cultivation space, for the purposes of tax collection, to encompass "canopy space" vs. the city's current methodology of taxing the full square footage of "space utilized" in connection with the cultivation process.
2. Permanently reduce the cannabis cultivation tax rate from \$10.20 per sq. ft. of "space utilized" in connection with the cultivation process to \$7.50 per sq. ft. of canopy space.
3. Align the city's security requirements to mirror state law for cultivation, manufacturing, and distribution facilities.
4. Allow for a 6-month ramp-up period for new businesses to phase in canopy space, for the purpose of calculating tax liability, as new rooms are brought online within a facility.

On October 3, 2023, Staff introduced an ordinance to modify the operating requirements and tax liability for cannabis operators. After discussion of the ordinance, the City Council tabled the reduction of the cultivation tax rate for further examination. The City Council took the following action:

1. Permanently modify the definition of cultivation space, for the purposes of tax collection, to encompass "canopy space" vs. the city's current methodology of taxing the full square footage of "space utilized" in connection with the cultivation process.
2. Align the city's security requirements to mirror state law for cultivation, manufacturing, and distribution facilities.
3. Allow for a 6-month ramp-up period for new businesses to phase in cultivation space, for the purpose of calculating tax liability, as new rooms are brought online within a facility.

As it relates to Item 1, the City Council has adopted the following definition of "Space" for cannabis cultivation:

"Space utilized in connection with the cultivation of medical marijuana" shall mean any horizontal canopy space used during the marijuana germination, seedling, vegetative, pre-flowering, flowering and harvesting phases related to the growth cycle of the marijuana plant, to include areas where live plants are present. "Space" shall exclude the area used for lighting, warming, cooling, aerating, fertilizing, watering, irrigating, topping, pinching, cropping, curing or drying marijuana or any such space used for storing any products, supplies or equipment related to any such activities, no matter where such storage may take place or such storage space may be located, including temporary storage of marijuana plants.



Each cannabis cultivation facility will receive a notice of the new square footage as determined by measurements taken by the Cannabis Compliance Team. The changes listed above will take place 30 days from the second reading of the ordinance, with the second reading being October 17, 2023. The new measurements will be effective starting with the tax period of July 1, 2023- December 31, 2023. The City Council approved the following modification to security requirements:

### **5.50.070 General security requirements.**

(A)(5) A security guard, licensed by, and compliant with all regulations of the California Department of Consumer Affairs, Bureau of Security and Investigative Services shall be present only during business hours for storefront retailers. The security guard(s) must possess a valid security guard card and if armed a firearms permit issued by the California Department of Consumer Affairs, Bureau of Security and Investigative Services. A cannabis facility may contract through a properly regulated private security company which private company complies with all State law requirements, including those of the Bureau of Cannabis Compliance. All security personnel hired or contracted for by the licensee shall be licensed by the Bureau of Security and Investigative Services and shall comply with Chapters 11.4 and 11.5 of Division 3 of the Business and Professions Code. The City must be notified of any change of a private security company if providing its own security guards.

Please feel free to reach out to Cannabis Compliance if you have any questions.