



**SAN RAFAEL**  
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**Agenda Item No: 6.c**

**Meeting Date: February 18, 2025**

## **SAN RAFAEL CITY COUNCIL AGENDA REPORT**

**Department: Community & Economic Development**

**Prepared by: Greg Minor, Assistant Director  
Community & Economic  
Development**

**City Manager Approval:**

A handwritten signature in blue ink, appearing to be "CJ", written over a horizontal line.

**TOPIC: EXTENDING CANNABIS BUSINESS TAX RATE TEMPORARY REDUCTION**

**SUBJECT: RESOLUTION EXTENDING CANNABIS INDUSTRY TAX RATE OF TWO (2) PERCENT OF ANNUAL GROSS RECEIPTS FOR CANNABIS DELIVERY BUSINESSES, FOR THE PERIOD OF JANUARY 1, 2025, THROUGH DECEMBER 31, 2026**

**RECOMMENDATION:**

Staff recommends that the City Council adopt a resolution extending the lower cannabis business tax rate for cannabis delivery businesses (State License Type 9) for the period of January 1, 2025, through December 31, 2026.

**BACKGROUND:**

In June 2018, San Rafael voters approved Measure G, which allowed the City of San Rafael to begin regulating businesses engaged in commercial cannabis activity in the City. The Cannabis Business Tax program is codified in [San Rafael Municipal Code Chapter 3.40 \(Ordinance 1961\)](#), which imposes business taxes of various rates on cannabis businesses. The ordinance authorizes the City Council to adjust tax rates by resolution provided the City Council sets tax rates for a minimum of a two (2) year term and the tax rates do not exceed eight (8) percent.

On November 7, 2022, the City Council adopted Resolution [15157](#), which lowered the tax rate for San Rafael cannabis non-storefront retailers (delivery businesses) from four (4) percent to two (2) percent of annual gross receipts for the period of January 1, 2022, through December 31, 2024.

The proposed resolution would extend the current two (2) percent tax rate for delivery businesses for the time period of January 1, 2025, through December 31, 2026. Beginning January 1, 2027, the tax rate of four (4) percent established by the City Council in 2018 under Resolution 14477 will go back into effect. The proposed resolution does not impact the tax rates for the three (3) other types of commercial cannabis businesses authorized in San Rafael: manufacturing, testing labs, and distribution. **Table 1** presents the current and proposed tax rates that would apply starting January 1, 2025, if the City Council adopts the proposed resolution.

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**FOR CITY CLERK ONLY**

**Council Meeting:**

**Disposition:**

**Table 1: San Rafael Cannabis Businesses' Historic, Current and Proposed Tax Rates  
(Percent of gross receipts)**

State License Type	Adopted in 2018 by Resolution 14477	Reduced January 1, 2023 – December 31, 2024	Reduction Extension Proposed January 1, 2025 – December 31, 2026
Delivery, non-storefront retail	4%	<u>2%</u>	<u>2%</u>
Infused Products Manufacturing	3%	3%	3%
Cannabis Testing Labs	1%	1%	1%
Distribution	1%	1%	1%

**ANALYSIS:**

[On November 7, 2022](#), the City Council adopted [Resolution 15157](#), approving a decrease of the tax rate for cannabis delivery businesses from four (4) percent to two (2) percent for the period of January 1, 2023, through December 31, 2024. At that time, the related staff report described the financial burden faced by cannabis businesses in California, including the fifteen (15) percent California cannabis excise tax (which is set to increase in July 2025) and the 9.25 percent combined sales and use tax, both of which contribute to low-profit margins. Furthermore, federal prohibition of cannabis adds additional burdens, including a lack of access to banking and an inability to deduct business expenses. These challenges remain today and underscore the impact of local business taxes on cannabis businesses.

In addition to the qualitative analysis included above, **Tables 2-3** and **Figure 1** below offer quantitative insights into the health of San Rafael's delivery businesses and how San Rafael's business tax rate compares to neighboring jurisdictions. For example, **Table 2** shows the total local and state tax rate of 26.25 percent burden for San Rafael cannabis businesses.

**Table 2: Total Taxes Imposed on Cannabis Delivery Sales in San Rafael**

Tax Type	Tax Rates 2024
San Rafael Cannabis Tax – Delivery	2%
Combined Sales and Use Tax	9.25%
State Cannabis Excise Tax	15%
<b>Total Tax Rate as of December 2024</b>	<b>26.25%</b>

**Table 3** provides an overview of local cannabis tax rates in the Bay Area and other California municipalities; San Rafael's tax rate for delivery businesses falls in the middle of the range for local tax rates.

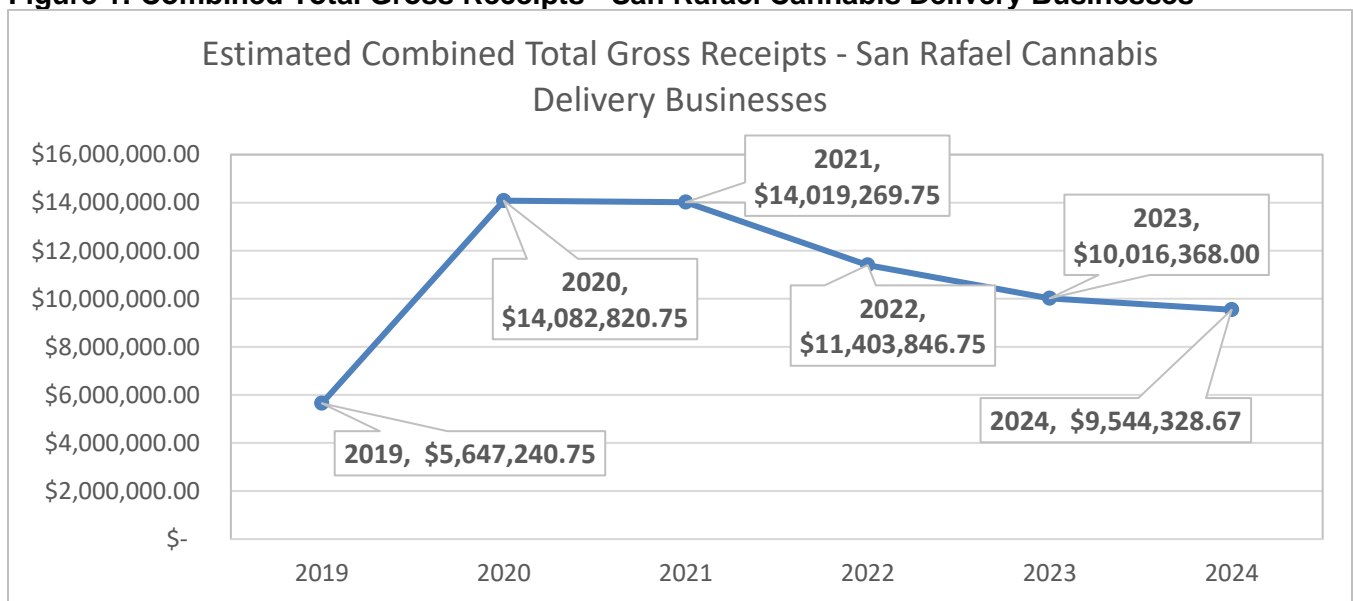
**Table 3: Comparison of Regional Tax Rates (as of October 2024)**

Jurisdiction	Cannabis Tax Rate
Sonoma County	3% Retail, 1.5% Manufacturing
City of Sonoma	4% Retail, 2% Testing, 3% Distribution, 4% Manufacturing
City of Santa Cruz	7% Retail, 1% Testing, 2% Distribution, 7% Manufacturing

City of Palo Alto	4% Retail
City/County of San Francisco	1% - 5% Retail gross receipts; 1% - 1.5% on non-retail sales
City of Sacramento	4% of their gross receipts
City of Davis	Flat fee on businesses
City of Santa Rosa	3% Retail, 1% Manufacturing
City of Cotati	3% Retail, 1% Manufacturing
City of Vallejo	7% Retail, 0% Medicinal, 5% Manufacturing, 2% Distribution,

Finally, **Figure 1** outlines the combined gross receipts of cannabis delivery businesses in San Rafael for calendar years 2019-2024, one measure of the health of San Rafael's cannabis delivery businesses.

**Figure 1: Combined Total Gross Receipts - San Rafael Cannabis Delivery Businesses**



**Figure 1** demonstrates that while the gross receipts of San Rafael's cannabis delivery businesses have decreased since 2021, the rate of decline has slowed since San Rafael lowered the local business tax rate for delivery businesses in 2022. Consequently, staff recommends maintaining the reduced tax rate of two (2) percent of annual gross receipts for cannabis delivery businesses to allow them to stabilize and grow their businesses.

#### **COMMUNITY OUTREACH:**

The City hosted a Cannabis industry convening in February 2024. At that time, cannabis delivery operators requested that the City of San Rafael's tax rate be lowered to either one (1) or zero percent for a time period longer than two years.

Subsequently, in December 2024, representatives from several San Rafael cannabis businesses attended the City of San Rafael's Economic Development Subcommittee meeting where, they shared some of the challenges they are experiencing related to falling sales in the regulated cannabis market, competition with the unregulated cannabis market, and a high state tax burden that is scheduled to

increase in the summer of 2025. In January 2025, San Rafael delivery businesses reiterated their request to eliminate or reduce the local cannabis business tax rate in light of the postponement of a hearing related to the rescheduling of cannabis from a Schedule One to a Schedule Three substance under the federal Controlled Substance Act as rescheduling may enable cannabis operators to deduct standard business expenses.

**FISCAL IMPACT:**

The Fiscal Year (FY) 2024-2025 budget includes an estimated \$225,000 in revenues from the City's Cannabis Tax. This revenue estimate was developed based on the existing tax rates and thus assumed the tax rate reduction approved for delivery businesses would be extended beyond 2024. While extending the reduced two percent tax rate for cannabis delivery businesses does not impact the FY 2024-2025 budget, if the City Council allowed the tax rate reduction to expire, San Rafael could expect additional tax revenues in the range of \$100,000 - \$150,000. The amount of increased cannabis tax revenues San Rafael would receive by allowing the delivery tax rate to return to four percent of annual gross receipts depends on how sensitive delivery businesses are to a change in the tax rate, including whether any delivery businesses may cease to operate in response to increased taxes. Ultimately, maintaining the lower tax burden on cannabis delivery businesses increases the likelihood that San Rafael's delivery businesses will succeed and continue contributing to both San Rafael's sales tax and cannabis tax revenue in the long run.

Cannabis Tax Fund (216) expenses include the personnel costs of the Economic Development, Police, and Finance Departments' of approximately \$160,000 in 2024. In addition, this fund supports costs associated with the SAFE Team pilot program, which is also funded through opioid settlement funds. There is sufficient balance in Fund 216 to cover all obligations, which include administration of the Cannabis program and the SAFE Team through the end of the SAFE pilot.

**OPTIONS:**

The City Council has the following options to consider on this matter:

1. Approve the attached resolution extending the cannabis tax rate for non-storefront retailers (Delivery) at two (2) percent of gross receipts for the period from January 1, 2025, through December 31, 2026, reverting to four (4) percent of gross receipts on January 1, 2027.
2. Adopt a tax rate other than two (2) but no more than eight (8) percent of annual gross receipts for non-storefront cannabis retailers (Delivery).
3. Continue this item and direct staff to return with more information.
4. Take no action. If no action is taken, the tax rate for cannabis delivery businesses will return to four (4) percent in January 2025.

**RECOMMENDED ACTION:**

Staff recommends that the City Council adopt a resolution extending the lower cannabis business tax rate for cannabis delivery businesses (State License Type 9) for the period of January 1, 2025, through December 31, 2026.

**ATTACHMENT:**

1. Resolution

**RESOLUTION NO. \_\_\_\_\_**

**RESOLUTION EXTENDING CANNABIS INDUSTRY TAX RATE OF TWO (2) PERCENT OF ANNUAL GROSS RECEIPTS FOR CANNABIS DELIVERY BUSINESSES, FOR THE PERIOD OF JANUARY 1, 2025, THROUGH DECEMBER 31, 2026**

**WHEREAS**, in June 2018, San Rafael voters approved Measure G (Ordinance No.1961, codified at Chapter 3.40 of the San Rafael Municipal Code), which imposes a special business tax on businesses engaged in commercial cannabis activity in San Rafael; and

**WHEREAS**, San Rafael Municipal Code Chapter 3.40 authorizes the City Council to adjust the tax rates of cannabis businesses by resolution provided the City Council sets tax rates for a minimum of a two (2) year term and the rate does not exceed eight (8) percent of annual gross receipts; and

**WHEREAS**, San Rafael recognizes the volatility of the legal cannabis market and desires to set tax rates that balance the financial needs of the City with supporting cannabis operators as they navigate the regulated cannabis marketplace; and

**WHEREAS**, in recognition of the economic challenges facing San Rafael's cannabis non-storefront retail (delivery) businesses, in November 2022 the San Rafael City Council adopted Resolution No. 15157, which lowered the local business tax rate for San Rafael cannabis non-storefront retail (delivery) businesses from four (4) percent to two (2) percent of annual gross receipts for the period of January 1, 2022, through December 31, 2024; and

**WHEREAS**, San Rafael's cannabis delivery businesses continue to navigate financial burdens operating in California's regulated cannabis marketplace; and

**WHEREAS**, based on the accompanying staff report, presentation, and discussion, the City Council finds extending the two (2) percent of gross receipts tax rate for cannabis non-storefront retailers (delivery) businesses for an additional two year period as this will reduce a key barrier facing delivery operators while still generating revenue for the City of San Rafael;

**NOW, THEREFORE, BE IT RESOLVED**, that, pursuant to San Rafael Municipal Code section 3.40.050, the City Council hereby sets the tax rate for cannabis businesses in San Rafael with license type 9, non-storefront retailer (delivery only) at two (2) percent of gross receipts, effective January 1, 2025, through December 31, 2026, and four (4) percent of gross receipts beginning January 1, 2027. Tax rates for cannabis businesses with other license types shall be unmodified by this resolution.

**I, LINDSAY LARA**, Clerk of the City of San Rafael, hereby certify that the foregoing resolution was duly and regularly introduced and adopted at a regular meeting of the City Council of the City of San Rafael, held on the 18<sup>th</sup> day of February 2025, by the following vote, to wit:

**AYES:**           **Councilmembers:**  
**NOES:**       **Councilmembers:**  
**ABSENT:**     **Councilmembers:**

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**Lindsay Lara, City Clerk**