

Fiscal Impact Analysis by City Finance Director

Measure L

Measure L, if approved by the voters, would add an ordinance to the Santa Cruz Municipal Code imposing a business tax, at the time of enactment, of 7% on the gross receipts of cannabis (medical marijuana) businesses in the City. Measure L would allow the City Council to increase the rate to no more than 10%. This tax could become effective in January, 2015, with expected first collections received by the City in February, 2015.

Use of the Funds. The cannabis business tax revenue would be held in the City's General Fund and used solely for primary support services that include Police, Fire, Public Works, Parks & Recreation, community programs and other essential services.

Fiscal Impact. The fiscal impact of this tax cannot be accurately estimated because the City currently has limited access to gross receipts records of cannabis businesses. However, when compared to sales tax data, and based on the zoning limitation of no more than two legally active cannabis businesses, it is estimated that the 7% tax rate could generate approximately \$33,000 in new revenue in the first, partial, fiscal year and \$66,000 to \$93,000 for a full tax year. (The ordinance applies to all cannabis businesses operating in the City, whether or not they are doing so legally.) The cannabis businesses will be required to file a statement of gross receipts, and pay the business tax on a monthly basis to the City. A penalty plus interest will be imposed if the tax is not paid timely.

There will be additional administrative costs to set up reporting procedures as well as perform routine collection and financial audits. These City costs are estimated to be approximately \$2,200 annually. Additional costs may be incurred for any enforcement actions.

Accountability. The City's Finance Director is the tax administrator, and has the authority to examine the books and records of the cannabis businesses to verify the accuracy of the statement of gross receipts that was filed and the business tax computed thereon. The Finance Director also has the authority to issue an assessment to a cannabis business for the estimated amount of tax owed if a statement is not filed and a tax is not paid by the business.

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