



City of Port Hueneme

COUNCIL AGENDA STAFF REPORT

TO: City Council

FROM: Rod Butler, City Manager

SUBJECT: Policy Revision on Cannabis Development Agreement Terms

DATE: September 16, 2019

RECOMMENDATION: Approve a policy revision on cannabis development agreement negotiating terms, to adopt target City revenue goals as follows:

Cultivation: \$7 per square foot of cultivation area.
Manufacturing: 2% of gross revenues.
Distribution: 2% of gross revenues.
Retail sales (storefront and/or delivery): 5% of gross revenues.
Microbusiness, wholesale sales: 2% of gross revenues.
Microbusiness, retail sales: 5% of gross revenues.

For a microbusiness or any other vertically integrated business, the gross-revenue fee shall be applied at the point at which the product is sold, whether wholesale or retail. Businesses which have a combination of wholesale and retail sales will pay separate rates for each portion of sales.

BACKGROUND / ANALYSIS: Unlike cities which have adopted specific taxing measures applying to the operation of various types of cannabis activities, our City relies on the mechanism of a Development Agreement to secure equivalent revenues from each Licensee. Dating from two years ago, when the first licenses were issued in Port Hueneme, all development agreements have contained the same provision which stipulates that 5% of a licensee's gross revenues be paid to the City.

We now have the benefit of two years' experience with these development agreements, combined with knowledge of changing conditions and trends in the cannabis industry state-wide. These factors suggest to us that a single-rate

approach to all types of licenses is outdated and threatens our competitive position vis-à-vis other cities now getting into the cannabis-licensing business.

Based upon our HdL consultants' data base of tax rates in cities around the state, including here in Ventura County, we recommend the guidelines for our development agreement negotiations be revised as stated above. The additional guideline of 1% of gross revenues to be devoted to community benefit programs would remain unchanged.

FISCAL IMPACT: There will undoubtedly be revenue generated for the General Fund from future development agreements, just as has occurred already from our dispensary licenses. It is not possible to forecast how the revenue picture would change from the adoption of this policy, because it relates to an unknown number of licenses which have not yet been issued. The intent of the policy, however, is to strengthen our city's competitive position, thereby making the applications for future licenses of all types more likely than if we continued our current policy. Since more licenses would equate to more revenue to the City, presumably this policy revision would have a positive fiscal impact on the City's General Fund.