

Cannabis Ballot Initiative

May 14, 2024

Workshop Overview

- Revenue Projections
- Nearby Tax Rates
- Adult Use and Medicinal Sales
- Cost Recovery Fees and Zoning Considerations
- Walk-In Sales vs. Sales by Delivery
- Regulatory Considerations
- General Tax vs. Special Tax
- Further Council Inquiries
- Cannabis Qualifying Properties
- Council Options and Direction to Staff



HdL Companies

Supplemental Impact Report



Revenue Projections

- Based on the size of the market, not the number of retailers
- Previous report estimated around \$21 million in annual sales
- \$850,000 to \$1.5 million in tax revenue depending on rate
- City could likely support three retailers

Revenue Projections Using a Range of Rates	
	Estimate
Adjusted annual gross receipts (from previous report)	\$21,682,752
Cannabis Business Tax: 4.0% (from previous report)	\$867,310
Cannabis Business Tax: 5.0%	\$1,084,138
Cannabis Business Tax: 6.0%	\$1,300,965
Cannabis Business Tax: 7.0%	\$1,517,793
Bradley-Burns local sales tax (1.0%) and Measure D (0.75%)	\$379,448



Nearby Tax Rates

- Tax rates among nearby cities range from 4% to 10% (adult use)
- Average is 6.1%
- Some cities apply separate rates for medicinal and adult-use
- HdL generally recommends a range of 4% to 6%

Cannabis Retailers and Tax Rates in the Duarte Area				
City	Maximum Rate	Current Rate	# of Retailers	Notes
Los Angeles County	6.0%	4.0%	0	County program still in development
Los Angeles (City)	5.0% / 10.0%	5.0% / 10.0%	554	Different rates for Medicinal / Adult use
Long Beach	8.0% / 12.0%	6.0% / 8.0%	38	Different rates for Medicinal / Adult use
Pasadena	4.0%	4.0%	3	
Baldwin Park	0.5% / 4.0%	0.5% / 4.0%	0	Different rates for Medicinal / Adult use
Commerce	5.0% + \$52K	5.0% + \$52K	6	Development agreements instead of a tax
Montebello	Varies	Varies	14	Development agreements; amount varies
Maywood	10.0%	10.0%	6	
El Monte	9.0%	5.0%	6	
Pomona	6.0%	6.0%	4	
West Hollywood	7.5%	7.5%	15	
Duarte Initiative (proposed)	4.0%	0.5% / 4.0%	5	Proposed 0.5% initial rate for medicinal sales
Regional Average (adult use)	7.0%	6.0%	N/A	
HdL Recommended	4.0% - 6.0%	4.0% - 6.0%	N/A	



Adult Use and Medicinal Sales

- Initiative proposed rates of 0.5% for medicinal and 4.0% for adult-use
- Applying the lower rate for medicinal would reduce revenue of \$38,000
- Medicinal cannabis accounts for less than 5% of retail sales
- Little to no benefit to purchasing cannabis in the medicinal market

Revenue Projections for Medicinal and Adult-Use	
	Estimate
Adjusted annual gross receipts (from previous analysis)	\$21,682,752
Adult-use sales (assumes 95% of all sales)	\$20,598,614
Medicinal sales (assumes 5% of all sales)	\$1,084,138
Adult-use tax rate: 4.0%	\$823,945
Medicinal tax rate: 0.5%	\$5,421
Total cannabis tax revenue; different rates	\$829,365
Total cannabis tax revenue; single rate	\$867,310
Difference in cannabis tax revenue	-\$37,945



Cost Recovery Fees and Zoning Considerations

- City could recover all permitting and regulating costs
- Annual permit fees tend to average \$16,000 to \$20,000
- Conduct a fee study based on desired level of oversight
- Initiative allowed retailers by right in CG, CF and specific zones
 - Inconsistent with existing allowances
 - No vacant locations in some zones
 - Conflicts with nearby sensitive uses
- Best placement to maximize sales would be each end of 210 corridor
- Zoning study could identify sensitive uses and analyze setbacks
- Being too restrictive can leave no available locations



Walk-In Sales vs. Sales by Delivery

- Walk-in sales would capture all applicable taxes
 - Bradley-Burns uniform local sales tax (1.0%)
 - Measure D transactions and use tax (0.75%)
 - Local cannabis tax (4.0% to 7.0%)
- Sales made via delivery outside of Duarte subject to apportionment
 - 1.0% local sales tax captured by Duarte
 - TUT and cannabis tax subject to apportionment with destination city
- Deliveries into Duarte from other cities also subject to apportionment
 - 1.0% local sales tax captured by city where delivery originates
 - TUT and cannabis tax subject to apportionment with Duarte
- Addressed in DMC 3.06.060 Place of Sale



Regulatory Considerations

- City can place additional limits on retailers as it sees fit
 - Storefront, delivery or both
 - Medicinal, adult-use or both
 - Can prohibit sale of live plants or other product types
- On-site cannabis consumption
 - Onsite consumption prohibited unless specifically allowed by City
 - Cannabis consumption lounges not defined in state law
 - Subject to various other areas of law (smokefree workplace laws)
- Design review, signage and billboards
 - City can impose design standards for cannabis retailers
 - City can limit types or locations of signage or billboards
 - City can only limit billboards that are within its jurisdiction



General Tax vs. Special Tax

- All local taxes must be approved by the voters
- General tax: All revenue can be used for any governmental purpose
 - Requires simple majority approval (50% +1)
- Special tax: Any or all revenue is pre-dedicated for a specific purpose
 - Requires 2/3 supermajority approval (66.67%)

Local Cannabis Tax Measures Since 2016			
Tax Measure Type	Number of Measures	Number Passing	Percentage Passing
General Taxes (50% +1)	162	146	90.1%
Special Taxes (66.67%)	11	5	45.5%
Total	173	151	87.3%



City Staff

Additional Council Inquiries and Next Steps



Additional Council Inquiries

- Council requested further information
 - Cities that acted on citizen led initiatives
 - Cities that adopted an ordinance outright
 - Cities that took ordinance to voters
 - Initiatives that were passed by voters
- Cities Surveyed
 - Baldwin Park
 - Bellflower
 - Compton
 - Cudahy
 - Culver City
 - El Monte
 - El Segundo
 - Hermosa Beach
 - Long Beach
 - Los Angeles
 - Lynwood
 - Malibu
 - Manhattan Beach
 - Maywood
 - Montebello
 - Pasadena
 - Pomona
 - Santa Monica
 - South El Monte
 - West Hollywood

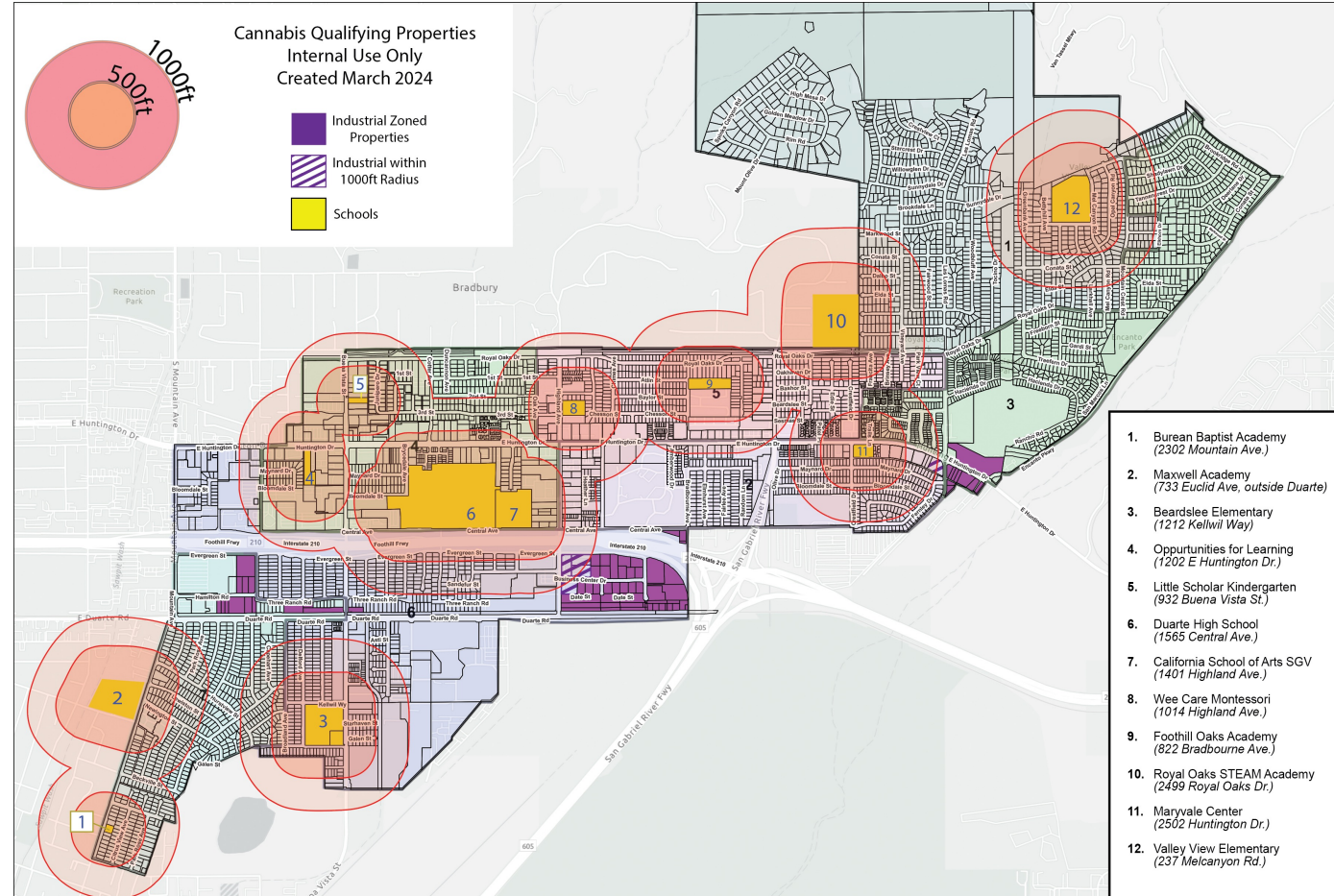


Additional Council Inquiries

	Acted on these Initiatives	Adopted Ordinance Outright	Took Ordinance to Voters	Passed by Voters
Yes	18	12	8	5
No	2	8	12	4
N/A	0	0	0	12
	Acted on these Initiatives	Adopted Ordinance Outright	Took Ordinance to Voters	Passed by Voters
Yes	90%	60%	40%	56%
No	10%	40%	60%	44%



Cannabis Qualifying Properties



Council Options and Direction to Staff

- Option 1
 - Take no action relating to cannabis issue
- Option 2
 - Direct City staff to prepare a November ballot measure that regulates or prohibits cannabis and a tax measure ordinance
- Option 3
 - Direct staff to amend the City's current cannabis ordinance to allow dispensaries and prepare a November ballot measure for a tax measure ordinance

