



# Cannabis Economic Impact Forum

February 22, 2018



# Cannabis Economic Trends

Cannabis industry set to generate \$7.6 billion in California by 2020

Local communities are looking to benefit financially from commercial companies

Creates jobs in the community directly and indirectly

Misconceptions of sales/use tax exemption H&S 11362.71

Saturation of market will impact cities

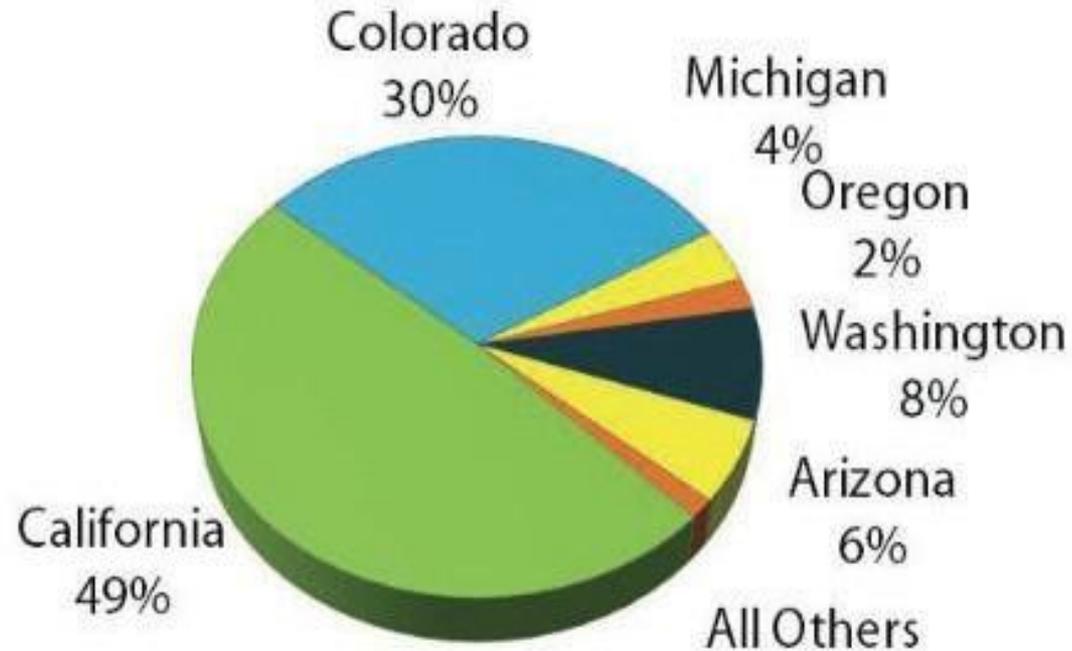
Impacts on property values and lease agreements for other businesses

# San Diego County Retailers Analysis

- There are 194 active cannabis retail sellers permits issued in the County
- The County generated \$80.6 million in cannabis retail sales in the last four reported quarters (3<sup>rd</sup> Qt 2016-2<sup>nd</sup> Qt 2017)
- Twenty-three (23) of the cannabis retailers generated 92% of the revenue \$74.4 million in Gross Receipts
- The average retailer generated \$3.2 million in revenue in the County
- The median cannabis retailer generated \$1.5 million in revenue in the County

\* Figures are calculated based only on all retailers that generated a minimum of \$500K in gross receipts.

# CALIFORNIA'S MARKET SHARE

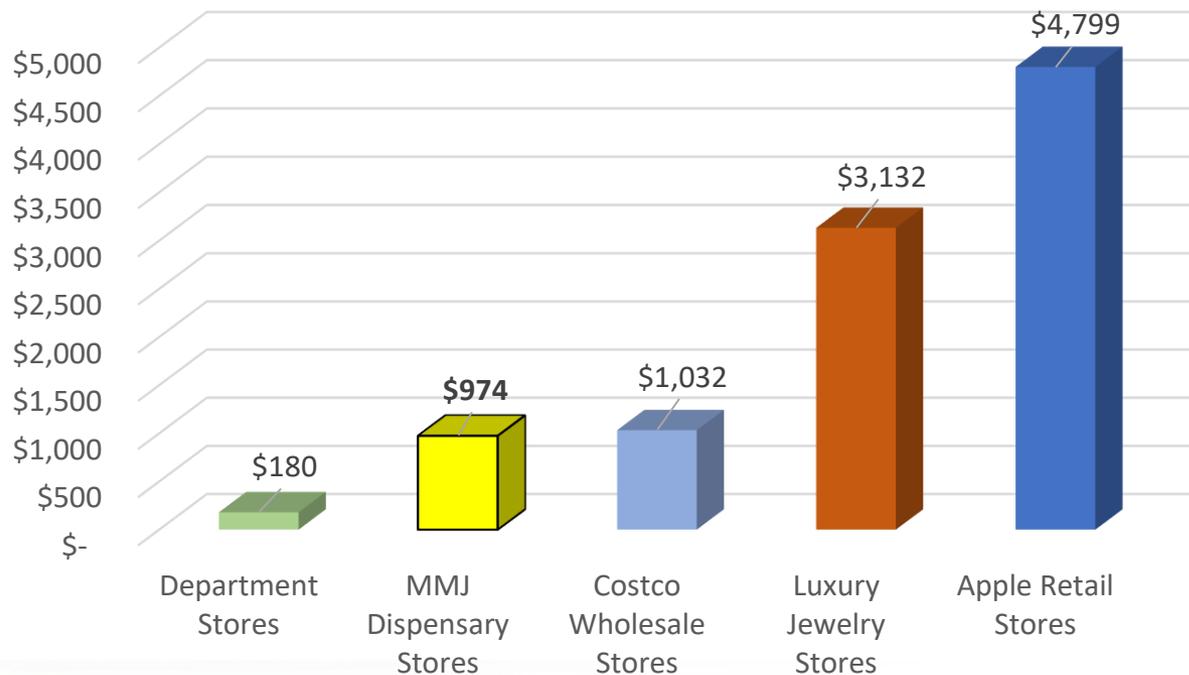


# PREDICTED PROFITABILITY IN 2018

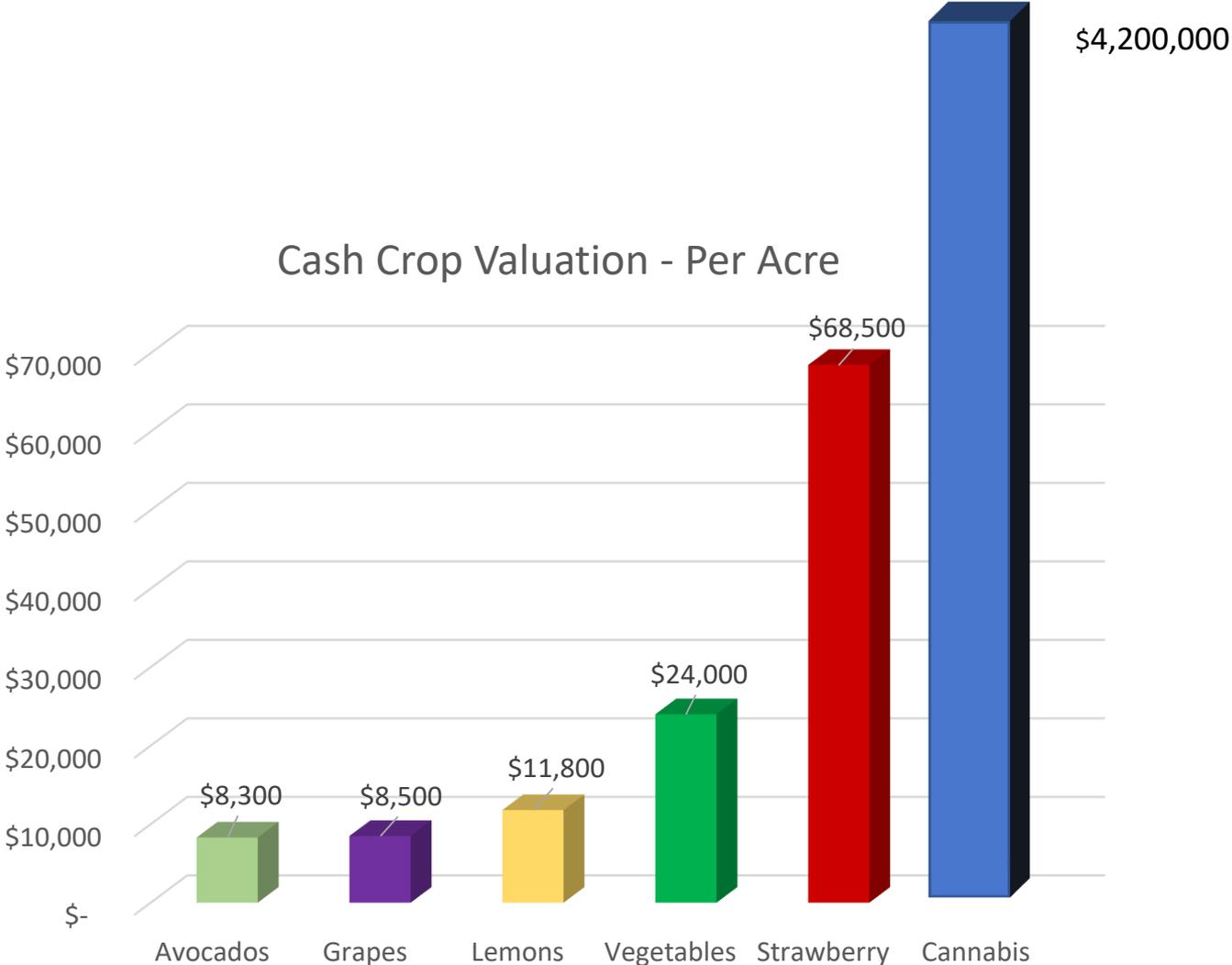


# AVERAGE ANNUAL REVENUE PER SQ. FT.

Avg. Revenue Per Sq. Ft.



# CASH CROPS VALUATION





# The Size of the Cannabis Industry in California

## California's Cannabis Market

**Total Statewide Cannabis Production:**

**13.5 million pounds**

(CDFA Estimate)

**Total Statewide Cannabis Consumption**

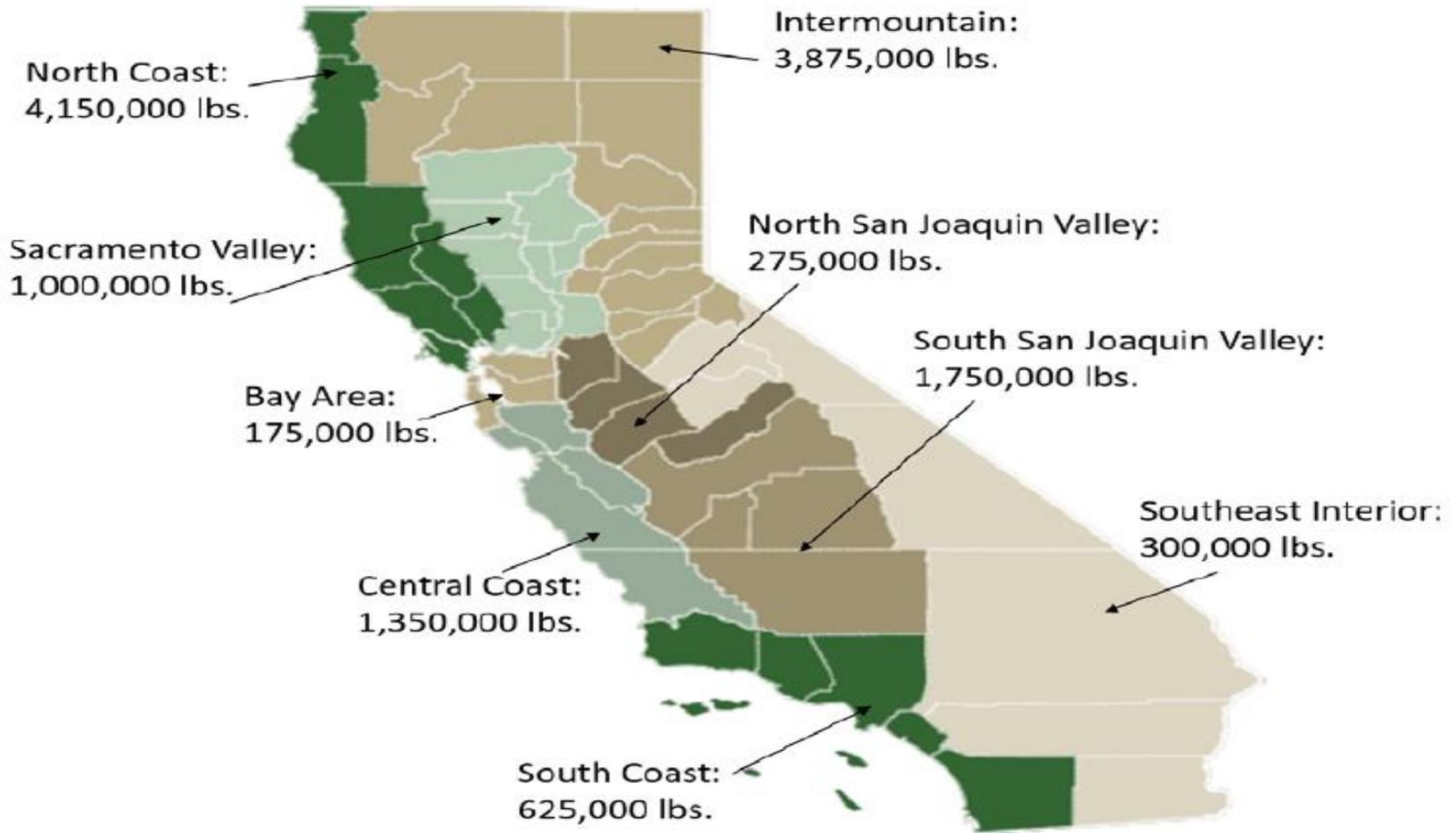
**2.5 million pounds**

(CDFA Estimate)

**1.6 million pounds**

(California Cannabis Opportunity Report)

# Regional Cannabis Production

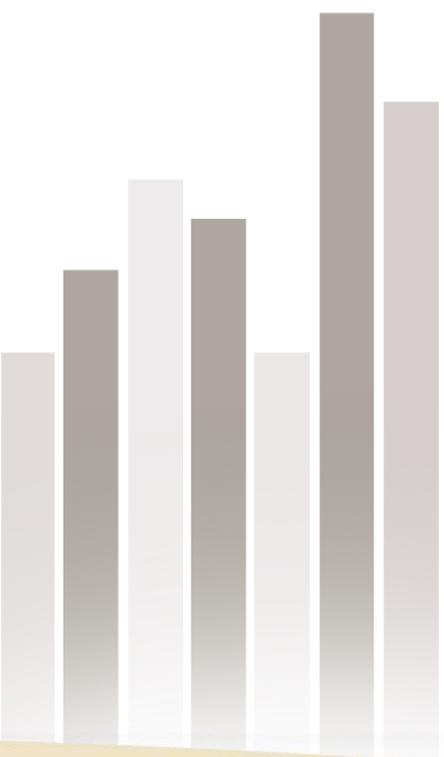


# Temporary Cultivation Permits Issued Statewide Per County as of Feb 1, 2018

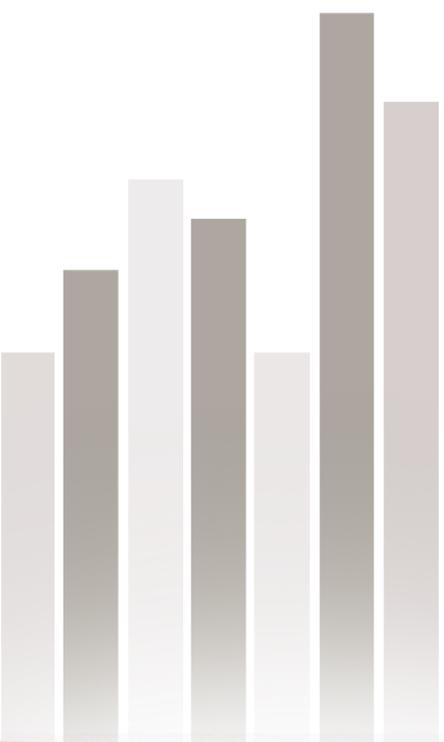
## Top 12 Counties

Humboldt	184
Santa Barbara	147
Mendocino	85
Monterey	74
Calaveras	48
Riverside	26
Trinity	24
Yolo	21
San Bernardino	21
Sacramento	19
Santa Clara	19
<u>Alameda</u>	<u>18</u>
Total	686

# Things to Consider in Developing Tax

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- Adult Use Marijuana Act (AUMA) 15% Excise Tax Effective tax rate.
  - Distribution and processing cost of 15% to 30%.
  - State permit cost to be implemented.
  - City/County regulatory permit fees which may be charged to offset staff costs to manage the program.

# Impacts to Cannabis Businesses

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- Employee Benefits- Salary, medical, vacation pay, sick leave, worker's comp, etc.,
  - Infrastructure and capital cost
  - Banking services cost (3%-5%)
  - Land purchase/lease agreements
  - Investors ROI within 3 years 10%-15%

## Cumulative Cannabis Taxes; HdL Recommendation

Category	Amount	Calculation	Total
<b>Producer Price</b>	\$1,000/lb	\$1,000	\$1,000
<b>State Cultivation Tax</b>	\$9.25/oz	\$148	\$1,148
<b>County Tax</b>	2.50%	\$25	\$1,173
<b>Batch Testing</b>	\$50/lb, + 0.5%	\$55	\$1,228
<b>Wholesale Price w/ Taxes</b>		\$1,228	
<b>Total Tax at Wholesale</b>		\$228	
<b>Tax as %</b>		22.80%	
<b>Distributor Markup</b>	30%	\$368.40	\$1,596.40
<b>County Tax</b>	3.00%	\$47.89	\$1,644.29
<b>Total Distributor Price</b>		\$1,644.29	
<b>Total Taxes at Distributor</b>		\$275.89	
<b>Total Tax as %</b>		16.78%	
<b>Retailer Markup</b>	100%	\$1,644.29	\$3,288.58
<b>County Tax</b>	7.00%	\$230.20	\$3,518.78
<b>State Excise Tax</b>	15%	\$493.29	\$4,012.07
<b>Total Retailer Price</b>		\$4,012.07	
<b>Total Taxes at Retail</b>		\$999.38	
<b>Total Tax as %</b>		24.91%	
<b>Sales Tax (non-medical)</b>	8.50%	\$341.03	\$4,353.10
<b>Total Taxes at Retail</b>		\$1,340.41	
<b>Total Tax as %</b>		30.79%	

## LOCAL TAX REVENUE PROJECTIONS SCENARIO

Emerging market makes it difficult to assess with total accuracy

Annual Revenue Estimates:

• Very Conservative	(2.5%)	\$ 675,000
• Moderate	(4%)	\$1,080,000
• Aggressive	(6%)	\$1,620,000

- *Assumes 2 cultivation facilities with 10,000 sq. feet each of canopy space generating \$4 million gross receipts annually.*
- *Assumes 2 manufacturers with an average of \$3 million in gross receipts.*
- *Assumes 2 retailers with an average of \$2.5 million in gross receipts.*
- *Assumes 2 testing labs with an average of \$2 million in gross receipts.*
- *Assumes 2 distribution facilities with an average of \$2 million in gross receipts.*

# Tax Fairness, Transparency and Accountability Act of 2018

- Requires all ballot measures to pass with a 2/3 vote in order to be implemented
- Any imposition, increase, or extension of a local government tax that was voted on by the electorate of the local government after January 1, 2018 but prior to the effective date of this subdivision, and which does not satisfy all of the requirements of paragraph (2) shall cease to be imposed, extended, increased, or collected unless and until the tax is approved in the strict compliance with all the requirements.

# THE DECISION IS YOURS



*Thank you!*

# CONTACT INFORMATION

David McPherson, Cannabis Compliance Director

[dmcpherson@hdlcompanies.com](mailto:dmcpherson@hdlcompanies.com)

Office Phone 909-861-4335

