Summary of Options

Option	Pros	Cons
1. Maintain square footage model, but adjust rates based on HdL's tax rate convertor model, with annual review. Recommended rate of 2.5% equating to: • $0.75/sq. ft. for outdoor • $12.50/sq. ft. for indoor • $3.00/sq. ft. for mixed-light	• Adjusted rates will distribute tax burden more equitably across the cultivation types • Recommended rate of 2.5% will result in outdoor cultivators receiving additional relief in the form of a lower rate • Cannabis businesses can deduct the tax as a production expense under cost of goods sold (COGS) when reporting federal corporate income tax • Budget preparation and revenue forecasting are more accurate and predictable • This option would be simple to implement with no significant staffing impacts or changes needed to administer	• Cultivators pay tax based on the privilege to grow; this tax is due whether or not they sell their product
2. Convert to Gross Receipts model (rate of 3%)	• Cultivators will pay taxes commensurate with their sales	• Difficult to budget as market fluctuates and is unpredictable • There are many mechanisms businesses can use to avoid taxes by reducing reported gross receipts • Robust audit program is required to ensure all receipts and transactions have been properly reported and all taxes fairly remitted. This would be a new program cost which would lead to a higher gross receipts tax rate (estimated at $200,000 annually). • Discussions with other counties have shown that to date no other county has implemented a successful audit program • State's METRC track and trace system does not include information that could be used to determine the gross

Summary of Options

Option	Pros	Cons
		receipts of cannabis businesses • More complicated tax structure; need to consider internal transfers, apportionment, cash vs. accrual, bad debt, etc. • This option would be difficult to implement, and there would be staffing and additional program costs to administer
3. Extend 45% tax rate reduction with no other changes through FY 2023-2024, with additional HdL review	• Maintains same level of relief already provided • This option would be simple to implement with no significant staffing impacts or changes needed to administer	• Does not provide additional tax relief • Does not change current tax rate structure which does not distribute the tax burden equitably across the cultivation types • Does not provide for market price recovery • The HdL report is timely and accurate for this discussion. If changing the methodology/tax structure is pushed to a later date, it is likely a new revenue and fiscal review will be necessary.