



## SUMMARY REPORT

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**Agenda Date:** 5/6/2025

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**To:** Board of Supervisors

**Department or Agency Name(s):** County Administrator's Office

**Staff Name and Phone Number:** McCall Miller, 707-565-2431

**Vote Requirement:** Majority

**Supervisory District(s):** Countywide

**Title:**

Cannabis Business Tax Ordinance Amendment- Second Reading

**Recommended Action:**

Adopt an Ordinance amending the Cannabis Business Tax Ordinance - Second Reading, Ready for Adoption.

**Executive Summary:**

On April 15, 2025, staff introduced an ordinance amending the County's Cannabis Business Tax Ordinance, codified in Sonoma County Code Chapter 35, to set cannabis cultivation tax rates as follows, effective July 1, 2025:

- Outdoor cultivation, rate of \$0.36 per square foot
- Mixed-Light cultivation, rate of \$1.15 per square foot
- Indoor cultivation, rate of \$3.00 per square foot

Under California law, this ordinance is required to be introduced and adopted at two separate board meetings. This item requests the Board adopt the ordinance amendment.

**Discussion:**

History

The Cannabis Business Tax (Measure A) was passed by voters in the March 7, 2017 special election with 71% voter approval. Measure A provided a framework for taxation, set maximum allowable rates for all operator types, and granted authority to the County to, among other things, set lower rates, tax certain operator types, and establish various tax administration policies. Since Measure A was approved, numerous changes have been made to the Cannabis Business Tax Ordinance:

- On December 13, 2016, Ordinance 6188 imposed a cannabis business tax on commercial cannabis businesses, which established Chapter 35.
- On June 13, 2017, Ordinance 6203 amended Chapter 35, setting cannabis business tax rates within the voter-approved maximum rates, and establishing certain regulations.
- On August 28, 2018, Ordinance 6241 amended Chapter 35, to make administrative changes.
- On April 19, 2022, Ordinance 6374 amended Chapter 35, to temporarily reduce the cultivation tax rates by 45 percent and make administrative changes.
- On May 23, 2023, Ordinance 6433 amended Chapter 35, setting cannabis cultivation tax rates, using the tax rate convertor model (2.5% gross receipts converted to square footage tax), effective July 1,

2023.

- On April 30, 2024, Ordinance 6471 amended Chapter 35, setting the current cannabis business tax rates using the tax rate convertor model for cannabis cultivation tax rates (2.5% gross receipts converted to square footage tax), effective July 1, 2024.

On April 15, 2025, an Ordinance was introduced amending the cannabis cultivation tax rates as follows (2.5% gross receipts converted to square footage tax), effective July 1, 2025:

Permit Type	Tax Rate (per square foot)
Outdoor Cultivation	\$0.36
Mixed-Light Cultivation	\$1.15
Indoor Cultivation	\$3.00

Below is projected cannabis business tax revenue for FY 25-26, including supply chain businesses, based on the amended tax rates:

Cannabis Business Type	Projected Tax Revenue*
<b>Cultivation Type and Tax Rate</b>	<b>FY 25-26</b>
Outdoor	\$205,899
Mixed-Light	\$7,013
Indoor	\$101,930
<b>Total projected cultivation tax revenue</b>	<b>\$314,843</b>
<b>Supply Chain Operation Type and Tax Rate</b>	
Retail (Dispensary), 3.0%	\$350,000
Manufacturing, 1.5%	\$40,000
<b>Total projected supply chain tax revenue</b>	<b>\$390,000</b>
<b>Total projected cannabis business tax revenue</b>	<b>\$704,843</b>

\*Note: Assumptions for cultivation tax revenue are based on known verified taxable canopy for FY 24-25. Canopy for FY 25-26 will be verified throughout the fiscal year.

The reduced cultivation tax rates will ease the financial burden on cannabis cultivators as market conditions continue to decline, as reported by operators. Based on current assumptions, the projected tax revenue at the adjusted rates and year-end estimated FY 24-25 fund balance is anticipated to meet the projected annual cannabis program escalated costs through FY 26-27. Staff will continue to track program costs and revenue. Staff will return to the Board in spring 2026 to review the cannabis cultivation tax rates for FY 26-27, per Board direction to annually review the cannabis tax rates.

**Strategic Plan:**

N/A

**Racial Equity:**

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**Was this item identified as an opportunity to apply the Racial Equity Toolkit?**

No

**Prior Board Actions:**

April 15, 2025 - Introduction and Waiving of Further Reading of Ordinance Amending Cannabis Business Tax Ordinance (Resolution No. 2025-0206) [SONOMA COUNTY - File #: 2025-0350 <https://sonoma-county.legistar.com/LegislationDetail.aspx?ID=7296133&GUID=2141A02A-465A-4DE2-AA84-35419AF6AB7C&Options=&Search=>](https://sonoma-county.legistar.com/LegislationDetail.aspx?ID=7296133&GUID=2141A02A-465A-4DE2-AA84-35419AF6AB7C&Options=&Search=>)

**FISCAL SUMMARY**

<b>Expenditures</b>	<b>FY24-25 Adopted</b>	<b>FY25-26 Projected</b>	<b>FY26-27 Projected</b>
Budgeted Expenses		\$1,715,000	\$1,761,000
Additional Appropriation Requested			
<b>Total Expenditures</b>		<b>\$1,715,000</b>	<b>\$1,761,000</b>
<b>Funding Sources</b>			
General Fund/WA GF			
State/Federal			
Fees/Other		\$700,000	\$710,000
Use of Fund Balance		\$1,015,000	\$1,051,000
General Fund Contingencies			
<b>Total Sources</b>		<b>\$1,715,000</b>	<b>\$1,761,000</b>

**Narrative Explanation of Fiscal Impacts:**

There are no new expenditures related to the implementation of the new tax rate as the taxation methodology is unchanged. Annual cannabis program costs will be supplemented with cannabis tax fund balance in the amount of approximately \$1,015,000 in FY 25-26 and \$1,051,000 in FY 26-27. Estimated FY 26-27 ending fund balance is \$650,000.

**Narrative Explanation of Staffing Impacts (If Required):**

N/A

**Attachments:**

Attachment A: Cannabis Business Tax Ordinance

**Related Items “On File” with the Clerk of the Board:**

None