

# Cannabis Business Tax

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# Recommended Actions

- Consider an Ordinance amending Chapter 35, the Cannabis Business Tax Ordinance:
  - To establish a new tax rate for outdoor cannabis cultivation.
  - To set cannabis business tax rates to be effective July 1, 2026 through June 30, 2029.
  - To make administrative changes to align with Sonoma County Code and state regulations.
- Adopt a Resolution introducing, reading the title of, and waiving further reading of a proposed ordinance amending Chapter 35 of the Sonoma County Code.



# 2026 Annual Review Findings

- Cultivation approximately same as 2025
- Prices decreased for majority of saleable products<sup>1</sup>
- Average price per pound for mixed-light cannabis products increased from \$153 to \$427
- Average price per pound for outdoor cannabis products decreased from \$143 to \$126

<sup>1</sup> Based on data reported by operators.



# Cannabis Program Costs

- Estimated program costs for FY 26-27 are \$490,000 and for FY 27-28 are \$510,000
- 1.6 FTE positions in three County depts.:
  - CEO
  - Health Services
  - ACTTC
- Costs also include legal and contract services, tax collection software



# Cannabis Tax Fund Budget

	<i>FY 24-25 Actual</i>	<i>FY 25-26 Projected</i>	<i>FY 26-27 Projected</i>	<i>FY 27-28 Projected</i>	<i>FY 28-29 Projected</i>
Starting Fund Balance	\$3,810,479	\$3,443,648	\$2,544,611	\$2,673,800	\$2,801,515
Tax Collection Revenue	\$1,045,468	\$550,000	\$620,000	\$638,000	\$657,000
Departmental Costs	\$1,178,964	\$1,111,093	\$315,811	\$325,285	\$335,044
Other Costs	\$52,219	\$182,200	\$175,000	\$185,000	\$195,000
<i>Sub-Total Program Costs</i>	\$1,231,183	\$1,293,293	\$490,811	\$510,285	\$530,044
EIR Costs	\$601,696	\$155,744	\$0	\$0	\$0
<b>Ending Fund Balance</b>	<b>\$3,443,648</b>	<b>\$2,544,611</b>	<b>\$2,673,800</b>	<b>\$2,801,905</b>	<b>\$2,928,471</b>

EIR and Program Update concluded in FY 25-26

Does not include the state grants. Health Services departmental costs are offset by permit revenues



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# Tax Rate Options

1. Adjust outdoor cannabis cultivation tax rate to align with 2.5% gross receipts converted to square footage; no changes to other tax rates.
2. No action, annual CPI adjustment will occur on July 1, 2026.
3. Maintain current tax rates, suspend annual CPI adjustment.



# Cultivation Tax Rate Options

	Option 1. Revised 2.5%	Option 2. CPI Adjusted	Option 3. Current rate
Outdoor	\$0.32	\$0.37	\$0.36
Mixed-Light	\$1.15	\$1.18	\$1.15
Indoor	\$3.00	\$3.08	\$3.00

Tax rates are per square foot of verified canopy



# Taxable Canopy FY23 – FY26

	FY22-23 Verified Canopy	FY23-24 Verified Canopy	FY24-25 Verified Canopy	FY25-26 Verified Canopy	Percent difference from FY24-25
Outdoor	890,800 20.45	579,350 13.3	570,600 13.1	553,648 12.7	-3%
Mixed-light	7,800 0.18	6,970 0.16	6,100 0.14	0 0	-100%
Indoor	55,300 1.27	40,100 0.92	33,970 0.78	28,750 0.66	-15%

Top number = canopy by square footage

Bottom number = canopy by acreage



# Projected Tax Revenue

	Option 1. Revised 2.5%	Option 2. CPI Adjusted	Option 3. Current rate
<i>Cultivation</i>	\$266,422	\$295,782	\$288,568
<i>Supply Chain</i>	\$354,000	\$354,000	\$354,000
<i>Total Tax Revenue</i>	<b>\$620,422</b>	<b>\$649,782</b>	<b>\$648,568</b>
<i>Use of Fund Balance</i>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

Figures are based on permitted canopy for FY25-26



# Administrative Updates

Proposed updates include:

- Align with Sonoma County Code and state regulations
- Add the requirement for cannabis operators obtain a Cannabis Business License
- Confirm the decision of the Treasurer-Tax Collector with respect to penalties and interest is final
- Increase the length of time for operators to retain records
- Add a confidentiality provision



# Staff Recommendation

Adjust cannabis cultivation tax rates as follows:

- Outdoor cannabis cultivation tax rate:
  - \$0.32/sq. ft. for outdoor cultivation
  - No changes to other tax rates
- Maintain cannabis business tax rates for three years from July 1, 2026 through June 30, 2029.
- Make administrative changes to align with Sonoma County Code and state regulations.





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# Questions