



COUNTY OF SONOMA

575 ADMINISTRATION
DRIVE, ROOM 102A
SANTA ROSA, CA 95403

SUMMARY REPORT

Agenda Date: 4/28/2026

To: Board of Supervisors

Department or Agency Name(s): County Executive's Office

Staff Name and Phone Number: Andrew Sturmfels and McCall Miller, (707) 565-2431

Vote Requirement: Majority

Supervisorial District(s): Countywide

Title:

Cannabis Business Tax Ordinance Amendment - First Reading

Recommended Action:

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

Executive Summary:

On May 6, 2025, the Board adopted Ordinance No. 6515 amending Sonoma County Code Chapter 35 (Cannabis Business Tax Ordinance), to set the cannabis cultivation tax rates as follows, effective July 1, 2025:

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

Consistent with prior Board direction, the current tax rates are based on maintaining the square footage taxation model using consultant HdL Companies' (HdL) tax rate convertor model, which assigns a square footage rate that approximates to an established 2.5% of gross receipts. The Board previously directed staff to conduct an annual review of the cannabis cultivation tax rates in an effort to be responsive to market changes. HdL conducted the annual review of cannabis cultivation tax rates in March 2026, using limited operator reported data for 2025.

Staff recommends a tax rate change for outdoor cultivation only, based on data provided by operators during the annual review. No changes to tax rates are recommended for indoor and mixed-light cultivation or for retail (dispensaries) and manufacturing operations. Staff also recommend the tax rates remain in place for three years effective July 1, 2026 through June 30, 2029. Additional administrative changes are being recommended, including definitional updates to align with those used by the California Department of Cannabis Control and California Department of Tax and Finance Administration and with those recently adopted in the Cannabis Land Use Ordinance.

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 tax rates for all operator types, and granted authority to the County to, among other things, set lower tax rates, tax certain operator types, and establish various tax administration policies. Since 2022, when the cultivation tax rates were reduced by 45 percent, numerous changes have been made to the Cannabis Business Tax Ordinance (Ordinance):

- 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 supply chain cannabis business and cannabis cultivation 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 May 6, 2025, Ordinance 6515 amended Chapter 35, setting the current cannabis cultivation tax rates, using the tax rate convertor model (2.5% gross receipts converted to square footage tax), effective July 1, 2025.

The current cannabis business tax rates are:

Operation Type	Rate
Outdoor cultivation	\$0.36 / square foot
Mixed-Light cultivation	\$1.15 / square foot
Indoor cultivation	\$3.00 / square foot
Retail (non-storefront and storefront)	3.0% of gross receipts
Manufacturing	1.5% of gross receipts

HdL Companies 2026 Cultivation Tax Analysis

To gather relevant cannabis cultivation data for HdL Companies (HdL) to conduct the annual cannabis tax rate review, County staff sent a Cannabis Cultivation Questionnaire (Questionnaire) to all permitted cannabis cultivation operators via email addresses included in the cannabis permit applications (63 operations, some of which include multiple types of cultivation). Participation in and completion of the Questionnaire was voluntary. Staff emailed operators a total of four times over a period of one month to encourage participation and completion of the Questionnaire. A total of 14 responses (22% of total operators) were received. In comparison, the County received 7 responses (6% of total operations) in February 2023; 13 responses (15% of total operations) in March 2024; and 13 responses (20% of total operations) in March 2025. Of the 14 responses received, HdL determined that some information was duplicative or incomplete, rendering it unusable. Accordingly, only five responses (8% percent of total operators) were used, consisting of 3 outdoor, 1 mixed-light, and 1 indoor operation(s), which is the lowest response rate ever received. It is important to note that while HdL's tax rate analysis took this data into account, the low amount of responses and usable data represent a very small sample set of the County's cultivation operations and are indicative only of those businesses who chose to participate in the annual tax review.

County staff provided the Questionnaire data to HdL for its annual tax rate analysis, in which HdL includes a discussion of general market trends and wholesale prices to determine how they affect the County's square-footage tax as a percentage of gross receipts. The HdL report is included as Attachment F. Highlights from the HdL review include:

- The County of Sonoma has a robust cannabis industry.
- The prices decreased for the majority of saleable products.
- The average price per pound for mixed-light cannabis saleable product increased from \$153 in 2025 to \$427 as reported for this analysis; the average price for outdoor cannabis products decreased from \$143 to \$126 (the reported information for indoor cannabis saleable products was unusable).

Based on HdL's prior analyses in 2023, 2024, and 2025, the Board previously adjusted cannabis cultivation tax rates to be in line with 2.5% gross receipts converted to square footage. The 2026 analysis includes a variety of prospective tax rates based on sales data as reported by operators and which has not been validated. The HdL report, due to the data not being validated, coupled with historically low response rates, does not provide a complete picture of the cannabis industry as a whole in the county nor does it account for program operations.

Supply Chain tax rates (retail and manufacturing) were not analyzed as part of this annual review, as the tax rates use the gross receipts method for taxation.

Consumer Price Index (CPI)

The Ordinance includes a provision for an annual adjustment to the square-footage based cannabis cultivation tax rates on July 1 of each fiscal year by the most recent Consumer Price Index (CPI) for the San Francisco-Oakland-San Jose area, as passed by voters in 2017. If no action is taken today, the cultivation tax rates will automatically be raised on July 1, 2026, by the most recent CPI, which is 2.5 percent as of the February 2026 published rate. If the CPI adjustment were to go into effect for FY 26-27, the cannabis cultivation tax rates would be:

- Outdoor cultivation: \$0.37 / square foot
- Mixed-Light cultivation: \$1.18 / square foot
- Indoor cultivation: \$3.08 / square foot

Cannabis Tax Fund Budget and Program Costs

Cannabis program costs are funded by cannabis business tax revenues. Due to declining revenue, the program has had to use fund balance to maintain program operations. Staff has been responsive to the evolving level of support required by the cannabis program and have adjusted staffing levels appropriately. With the adoption of the updated Cannabis Program by the Board in December 2025, anticipated staffing needs are much lower than with the current Program. For FY 26-27, a total of 1.6 full-time equivalent (FTE) positions are included in the Cannabis Tax Fund budget, reduced from 8.0 FTE positions in FY 25-26. Cannabis program costs include staff in three County departments, including 0.6 FTE program management positions in the County Executive's Office, 0.5 FTE tax collection positions in Auditor-Controller-Treasurer-Tax Collector, 0.5 FTE environmental health positions in the Department of Health Services, contract services, and legal costs (County Counsel and

external counsel) (See Attachment D for the Cannabis Tax Fund Budget). Program costs do not include staff for the Department of Agriculture / Weights & Measures (AWM), as costs are offset by inspection fees, nor for Permit Sonoma, as permits are billed at-cost to the applicants. Estimated program costs for FY 26-27 and FY 27-28 are \$490,000 and \$510,000, respectively. Cannabis business tax revenue is estimated at \$620,000 and \$638,000 for FY 26-27 and FY 27-28, respectively.

After significant declines in taxable (verified) canopy from fiscal year 21-22 to fiscal year 23-24, taxable canopy has remained relatively stable for the past three fiscal years as taxable canopy. See table below for taxable canopy for fiscal years 21-22 through 25-26.

	FY 21-22	FY 22-23	FY 23-24	FY 24-25	FY 25-26
Outdoor	1.3M sf (30.2 ac)	890,000 sf (20.5 ac)	579,350 sf (13.3 ac)	570,600 sf (13.1 ac)	553,648 sf (12.7 ac)
Mixed-Light	29,600 sf (0.68 ac)	7,800 sf (0.18 ac)	6,970 sf (0.16 ac)	6,100 sf (0.14 ac)	0 sf (0 ac)
Indoor	68,800 sf (1.58 ac)	55,300 sf (1.27 ac)	40,100 sf (0.92 ac)	33,970 sf (0.78 ac)	28,750 sf (0.66 ac)

This stabilization aligns with the actions taken by the Board in the past few years to reduce cultivation tax rates in response to the declining market. Historically, and to make up the difference between program costs and cannabis business tax revenue, the program relied on fund balance. Moving forward, starting with FY 26-27, cannabis business tax revenue is projected to support ongoing cannabis program costs.

Other Jurisdictions

A review of cannabis cultivation tax rates for other jurisdictions is included in Attachment E. The County's tax rate for outdoor cultivation is lower compared to other counties and the tax rate for mixed-light cultivation is comparable to other counties using the square footage model for taxation, such as Lake and Monterey. In contrast, the County's tax rate for indoor cultivation is higher than those same counties.

As part of their analysis, HdL converted the current cannabis cultivation tax rates to a gross receipts percentage, adjusting for the average price per pound as reported for 2025, which is: 2.86% for outdoor cultivation; 2.5% for mixed-light cultivation; and 2.5% for indoor cultivation. These rates are much lower to many counties using the gross receipts method for cannabis cultivation taxation, which include San Luis Obispo, Santa Barbara, Santa Cruz, and Yolo.

Administrative Updates

To align with language and definitions used by state agencies (Department of Cannabis Control and California Department of Tax and Finance Administration) and with those recently adopted in the Cannabis Land Use Ordinance (Program Update), a variety of administrative updates are recommended.

The updates being recommended include:

- Adding definitions to align with Sonoma County Code and state agencies;

- Removing definitions that are included in Sonoma County Code Section 26-04-020 by reference;
- Requiring cannabis operators to obtain a cannabis business license prior to commencing business;
- Confirming that the decision of the Treasurer-Tax Collector with respect to a penalty and interest waiver is final;
- Updating language regarding refunds to clarify a claim for refund must be filed within one year from the date of the overpayment, not from the original due date of the tax;
- Increase the timeframe within which the Treasurer-Tax Collector can take enforcement action against operators;
- Increase the length of time that operators must retain their records supporting the cannabis business tax paid from three years to five years;
- Clarify that the appeal hearing in front of the Hearing Officer is only to appeal the taxes, penalties and interest imposed pursuant to a Notice of Assessment issued by the Treasurer-Tax Collector; and
- Adds a confidentiality provision to clarify that tax returns submitted to the County are confidential.

Options and Staff Recommendation

Staff recommends Option 1 as described below. Additionally, staff recommends that the Board maintain the tax rates for three fiscal years, through June 30, 2029. While the Board previously directed staff to return annually with an annual review to address market fluctuations, operator response has declined, the market has become relatively stable, data provided cannot be validated, and the staff and consultant costs are increasing. Setting the rates for three years will provide certainty for the cannabis industry. During FY 28-29, staff would conduct a new cannabis cultivation tax rate analysis.

1. Adjust outdoor cannabis cultivation tax rate to align with 2.5% gross receipts converted to square footage, with no changes to the mixed-light and indoor cannabis cultivation tax rates.
2. No change to the ordinance, allowing the annual CPI adjustment to occur.
3. Maintain current tax rates, not allowing the annual CPI adjustment to occur.

Staff recommends the Board adopt Option 1, as it is responsive to the reported decline in market prices for cannabis cultivated outdoors. Options 2 and 3 are not recommended as they are not responsive to market price changes for outdoor cannabis cultivation as reported in HdL’s review. If one of these options were chosen, the cannabis cultivation tax rates would increase by the CPI rate of 2.5 percent effective July 1, 2026 (Option 2) or would remain the same (Option 3).

Option 1 is within the scope of authority granted to the Board of Supervisors by the voters in approving the cannabis business tax. Under this option, the recommended cannabis cultivation tax rates for FY 26-27 through FY 28-29 would be:

- Outdoor cultivation: \$0.32 / square foot
- Mixed-Light cultivation: \$1.15 / square foot - no change
- Indoor cultivation: \$3.00 / square foot - no change

Below is projected cannabis business tax revenue for FY 26-27, including supply chain businesses, assuming Option 1 is adopted.

Cannabis Business Type	Projected Tax Revenue*
Cultivation Type and Tax Rate	FY 26-27

Outdoor (\$0.32/sf)	\$177,167
Mixed-Light (\$1.15/sf)	\$3,006
Indoor (\$3.00/sf)	\$86,249
Total projected cultivation tax revenue	\$266,422
Supply Chain Operation Type and Tax Rate	
Retail (non-storefront and storefront), 3.0%	\$330,000
Manufacturing, 1.5%	\$24,000
Total projected supply chain tax revenue	\$354,000
Total projected cannabis business tax revenue	\$620,422

*Assumptions for outdoor and indoor cultivation tax revenue are based on known verified taxable canopy for FY 25-26. The assumption for mixed-light cultivation tax revenue is based on permitted canopy for FY 25-26. Canopy for future fiscal years will be verified during each fiscal year.

While it is difficult to forecast the numerous factors that go into a tax rate analysis and it is unclear what effects the Program Update will have on operations, based on current assumptions, the projected tax revenue at the recommended adjusted rates will meet the projected annual cannabis program escalated costs. Staff will continue to track program costs and revenue and will return with program operational adjustments as necessary.

Staff recommends the Board approve the following changes to the Cannabis Business Tax Ordinance:

- A. Adjustment of the tax rate for outdoor cannabis cultivation to \$0.32/square foot with no changes to the tax rates for mixed-light and indoor cultivation (kept at \$1.15/square foot and \$3.00/square foot), respectively; and
- B. Maintenance of the cannabis cultivation tax rates for a period of three fiscal years from July 1, 2026 through June 30, 2029; and
- C. Administrative changes as outlined above.

Strategic Plan:

N/A

Racial Equity:

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

No

Prior Board Actions:

12/13/2016: Ordinance 6188 imposed a cannabis business tax on commercial cannabis businesses, which established Chapter 35

6/13/2017: Ordinance 6203 amended Chapter 35, setting cannabis business tax rates within the voter-approved maximum rates, and establishing certain regulations

8/28/2018: Ordinance 6241 amended Chapter 35, to make administrative changes

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4/19/2022: Ordinance 6374 amended Chapter 35, to temporarily reduce the cultivation tax rates by 45 percent and make administrative changes (
<https://sonoma-county.legistar.com/LegislationDetail.aspx?ID=5552456&GUID=CA51C391-F51F-4BDD-B912-3F2A83817AB1&Options=&Search=>>)

5/23/2023: 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 (
<https://sonoma-county.legistar.com/LegislationDetail.aspx?ID=6208098&GUID=F1689D18-7F34-4AA5-9531-0A9A17C47910&Options=&Search=>>)

4/30/2024: Ordinance 6471 amended Chapter 35, setting supply chain cannabis business and cannabis cultivation 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 (
<https://sonoma-county.legistar.com/LegislationDetail.aspx?ID=6645993&GUID=B6C818B7-4452-4E9E-BF21-E17ED39D40C3&Options=&Search=>>)

5/6/2025: Ordinance 6515 amended Chapter 35, setting the current cannabis cultivation tax rates, using the tax rate convertor model (2.5% gross receipts converted to square footage tax), effective July 1, 2025 (
<https://sonoma-county.legistar.com/LegislationDetail.aspx?ID=7357450&GUID=89A05180-8E74-4FB8-B087-08A1E95B0AB9&Options=&Search=>>)

FISCAL SUMMARY

Expenditures	FY 25-26 Adopted	FY 26-27 Projected	FY 27-28 Projected
Budgeted Expenses			
Additional Appropriation Requested			
Total Expenditures			
Funding Sources			
General Fund/WA GF			
State/Federal			
Fees/Other		\$620,000	\$638,000
Use of Fund Balance			
General Fund Contingencies			
Total Sources		\$620,000	\$638,000

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 supported by cannabis tax fund revenue of approximately \$620,000 in FY 26-27 and \$638,000 in FY 27-28. Estimated FY 26-27 ending fund balance is \$2.6M.

Narrative Explanation of Staffing Impacts (If Required):

N/A

Attachments:

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- A. Resolution introducing the Ordinance and Waiving Further Reading
- B. Draft Ordinance
- C. Exhibit A to the Draft Ordinance (Redline version of Chapter 35, Cannabis Business Tax Ordinance)
- D. Cannabis Tax Fund Budget
- E. Other Jurisdictions Cannabis Tax Rates
- F. HdL Industries Report
- G. PowerPoint Presentation

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

None