

CANNABIS POLICY OVERVIEW

JANUARY 18, 2019

KEY TOPICS:

- THC VS. CBD
- HOW ARE OTHER STATES DOING?
- CALIFORNIA CANNABIS
- TAXATION: FROM SEED TO SALE
- SANTA CLARA COUNTY AND SURROUNDING AREAS



THC VS. CBD

THC – Tetrahydrocannabinol

- Psychoactive – “high” effect
- Only cultivated from cannabis plant
- Sold exclusively by medical/recreational dispensaries and delivery services
 - Flower
 - Extracts
 - Edibles
- Potency has few regulations as of now
 - Can be anywhere from 5%-30%
 - Average is 8% THC

CBD – Cannabidiol

- Little to no psychoactive effects
- Extracted from industrial hemp & cannabis plants
 - *Only allowed to be sourced from, produced, and sold by those with commercial cannabis licenses*
- Many perceived health benefits
 - Topical Creams
 - Food & Drink
 - Oils
- Legal in most states as Medical CBD
 - This year, Oklahoma became the 30th state to legalize medical cannabis

STUDY OF OTHER STATES' CANNABIS OUTCOMES

Washington

- \$315 million in tax revenue since 2014
- Only allows indoor growing
- Using money to fund teacher salaries
- 37% sales tax

Oregon

- \$108.6 million in tax revenue
- Set no limitations on number of permits or growers
- Surplus of cannabis
 - Causing price to plummet
 - Sellers can't find stable price
 - Selling back to black market
- 17% sales tax

Colorado

- \$247 million in tax revenue
- Tax breakdown:
 - 10% state cannabis sales tax
 - 15% state excise tax
 - Various local sales tax rates

All 3 States

- Using tax revenues to fund:
 - Schools
 - Drug abuse prevention
 - Law enforcement
- Teen cannabis use has decreased
- Adult emergency dept. visits have increased - mostly attributed to tourists
- \$9.2 billion industry in 2017

CALIFORNIA CANNABIS POLICIES

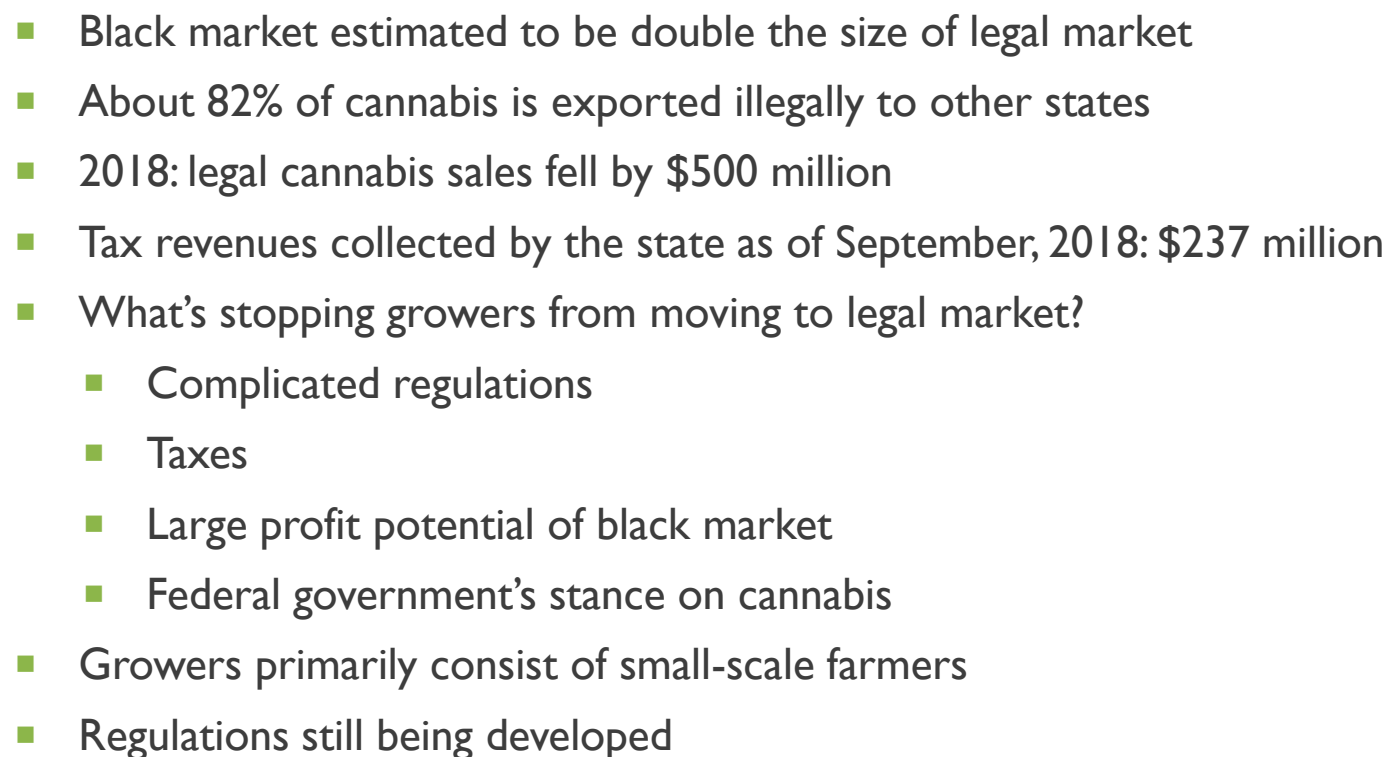
Bureau of Cannabis Control – Dept. of Consumer Affairs

- Licenses testing labs, distributors, retailers, and microbusinesses
- Sets marketing and packaging regulations
 - No designs appealing to children
 - Universal California Cannabis Symbol



Manufactured Cannabis Safety Branch – Dept. of Public Health

- Licenses manufacturers of cannabis products
- Sets dosage/consistency regulations
 - Products cannot be infused with nicotine/alcohol
 - Edibles have max of 100mg of THC/package and 10mg/serving



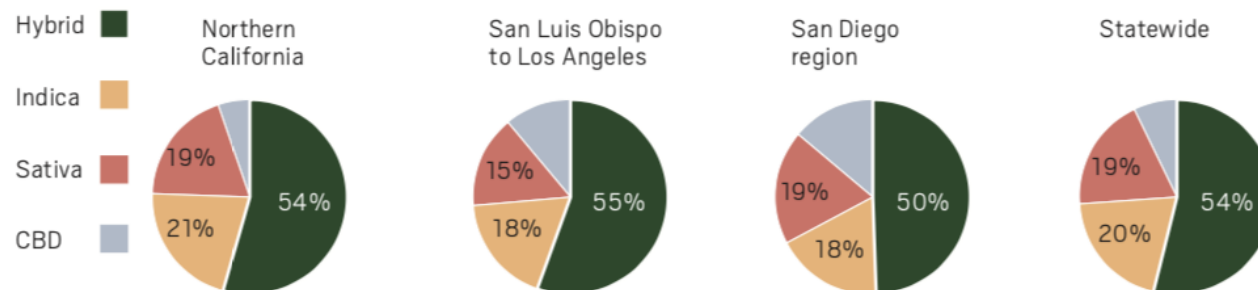
CALIFORNIA CANNABIS MARKET

Southern Californians were bigger cannabis consumers this year than their northern counterparts: They purchased products more frequently and, in each transaction, bought more products and spent more money. Flowers were the best-selling cannabis category across the state (44 percent of

sales). Edibles, however, were notably more popular in Southern California, where they make up 19 percent of sales in the San Diego region, compared with just 9 percent in Northern California.



Types of marijuana purchased online from Jane California in 2018.



LICENSES IN CALIFORNIA

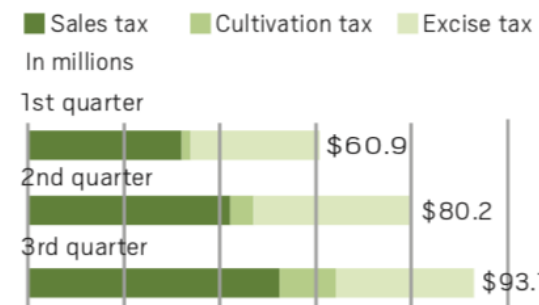
Active temporary cannabis licenses at end of 2018

547: retailers	1,009: distributors
231: delivery	200: microbusinesses
4,770: cultivation	52: testing
639: manufacturers	70: event organizers

Annual cannabis licenses issued at end of 2018

8: retailers	0: distributors
0: delivery	0: microbusinesses
3: cultivation licenses	0: testing
12: manufacturers	4: event organizers

CALIFORNIA'S POT REVENUE



Sources: Bureau of Cannabis Control, Department of Food and Agriculture, Department of Public Health

Source: California Department of Tax and Fee Administration

WHERE IS THE MONEY?

Cannabis is taxed from seed to sale.

- **Cultivation tax:** *where the money is.*
 - Example: Monterey County tax rate is \$15/sqft
 - A greenhouse is 5,000 sqft = **\$75,000 in new tax revenue per greenhouse.**
 - There are 8 greenhouses per acre = **\$600,000 in new tax revenue per acre.**
- **Sales Tax**
 - California state cannabis sales tax is 15%.
 - City of San Jose cannabis sales tax is 10% and estimated **\$9.4 million** for FY17/18.
 - This does not include the potential increase from recreational sales.

HOW DO LOCAL GOVERNMENTS RECEIVE STATE MONEY?

- 1.) Commercial cultivation
- 2.) Commercial Sales
- 3.) Personal outdoor growing

SANTA CLARA COUNTY'S CURRENT CANNABIS STATUS

- Cultivation and sale is left up to municipalities
- Delivery legal statewide, regardless of local governments' decisions to ban cannabis
- Only medical cultivation allowed in unincorporated areas of Santa Clara County
 - 12 plants allowed outdoors
 - 1 room (max 50/sqft) allowed for indoor cultivation

City	Sales Tax	Projected Sales Tax Rev.	Cultivation Tax (\$/ft ²)	Projected Cultivation Tax Rev.
San Jose	10%	\$8,000,000	-	-
Santa Clara	10%	\$200,000	\$25/ft ²	2,000,000
Mountain View	9%	\$1,000,000	-	-
Morgan Hill	10%	\$150,000	\$10/ft ²	400,000

SURROUNDING CITIES

Milpitas has banned cannabis businesses and personal cultivation

City of Santa Clara passed Measure M

- Tax of 10% of GR and up to \$25/sqft for cultivation
- Santa Clara residents were going to San Jose anyway

Campbell has moratorium on dispensaries until April 1, 2019, BUT:

- February 20, 2018: set local sales tax on cannabis at 7%
- Currently allow delivery services within city
- City manager says 3 dispensaries could bring in \$130,000-260,000

Redwood City approved a recreational cannabis zone

- Only wholesale businesses and indoor nurseries
- Can only grow seeds, clones, and immature plants
- Cannot sell to individuals

SURROUNDING COUNTIES' ACTIONS

County	Cultivation allowed?	Tax Rate	Notes
Alameda	Medical only****	N/A	Retail allowed
Contra Costa	Yes	\$7/sqft & 4% GR	
Merced	No	N/A	
Monterey	Yes	\$15/sqft	Cultivation limited to existing greenhouses/buildings
Napa	Yes	N/A	Moratorium of commercial cannabis
San Benito	Yes	\$3-17/sqft	Projected tax revenue of \$3MM
San Mateo	Yes	N/A	Indoor private cultivation only
San Francisco	Yes	\$150/lb.	Indoor cultivation only
Santa Cruz	Yes	5% of GR	Retail and manufacturing allowed
Solano	Yes	N/A	Moratorium in place – personal indoor cultivation only
Sonoma	Medical only	\$12/sqft	Limited to one acre
Stanislaus	Yes	N/A	Developing ordinances and regulations