



City Council Agenda Item Staff Report

CITY OF SAN BRUNO

DATE: January 24, 2023

TO: Honorable Mayor and Members of the City Council

FROM: Trisha Ortiz, City Attorney
Jovan D. Grogan, City Manager

SUBJECT: Ordinance of the City of San Bruno Amending Title 3 (Revenue and Finance) of the Municipal Code to Increase the Tax Imposed on Cannabis Businesses

BACKGROUND:

On October 11, 2022 the City Council adopted an ordinance to permit and regulate cannabis business in the City. Among the cannabis regulations in the ordinance was a provision to set the cannabis business tax rate at 5% of gross receipts. The City Council directed staff to return with an amendment to increase the tax rate to 6%.

DISCUSSION:

In November 2020, San Bruno voters approved a ballot measure imposing up to a 10% tax on the gross revenues of any commercial cannabis activity that the city ultimately allows. The tax will apply in addition to the general business license tax imposed by the City. The City Council can adopt a lower tax rate without requiring voter approval, but an increase above 10 percent would require voter approval.

Staff reviewed local municipality cannabis projected annual revenues (and obtained actual revenue figures, where available) where commercial cannabis activities are permitted, and found that they range from less than \$100,000 in South San Francisco, which has two licensed commercial cannabis operations, \$200,000 in Redwood City, with four licensed operations, to \$572,000 in Pacifica, which has five licensed operations, including “legacy” operations which preceded recent state enabling cannabis law.

Retail cannabis sales include a state excise tax (15% tax to purchaser) and a sales tax for non-medicinal products (7.25-10.25%), and may include an additional local tax. Local cannabis business tax rates vary for nearby jurisdictions, ranging from 3% (Brisbane) to 6% (Pacifica and Half Moon Bay), while approved local tax rates in California range more widely, from 2 to 20%. The Ordinance adopted by the City Council on October 11, 2022 includes a 5% tax rate on both retail and distribution facilities.

Pursuant to Government Code Section 54954.6, the City Council will consider the proposed tax increase at a public meeting and at a subsequent public hearing following published notice provided for three weeks pursuant to Government Code Section 6063. The notice was published on December 9, 2022, December 16, 2022, and on December 23, 2022. The City

Council will hold a public hearing and consider introduction of the ordinance at its meeting on February 14, 2023.

FISCAL IMPACT:

There is no immediate fiscal impact from the adoption of the ordinance. However, should cannabis businesses be permitted to operate within the City, future revenue to the City will increase by 1%.

ENVIRONMENTAL IMPACT:

The adoption of the ordinance does not have the potential for creation of a significant environmental impact pursuant to the California Environmental Quality Act (CEQA), and as such are exempt from further environmental consideration per CEQA Guidelines Section 15061(b)(3).

RECOMMENDATION:

Allow public testimony on proposed Ordinance Amending Title 3 (Revenue and Finance) of the Municipal Code to Increase the Tax Imposed on Cannabis Businesses.

ALTERNATIVES:

1. After taking public testimony, direct staff to retain the current cannabis business tax rate at 5% of gross receipts.
2. After taking public testimony, provide direction to change the cannabis business tax rate to another amount that is equal to or less than 10%, as permitted by the November 2020 ballot measure.

ATTACHMENTS:

1. Ordinance