



## City Council Agenda Item Staff Report

CITY OF SAN BRUNO

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**DATE:** February 14, 2023

**TO:** Honorable Mayor and Members of the City Council

**FROM:** Jovan D. Grogan, City Manager

**PREPARED BY:** Peter Gilli, Community and Economic Development Director

**SUBJECT:** Introduce, Read by Title Only, and Waive Further Reading of an 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 commercial cannabis business in the City. Among the cannabis regulations in the ordinance was a provision to set the commercial cannabis business tax rate at 5% of gross receipts. The City Council directed staff to return with an amendment to increase the tax rate by 1% 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 is 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% would require voter approval.

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. During the adoption, the City Council directed staff to return at a later date with an amendment to increase the tax rate to 6%.

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. At the regular City Council meeting on January 24, 2022, this item was reviewed as part of the consent calendar, with no modifications requested to the draft ordinance that was provided for review. 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 from those cannabis businesses will increase by 1%.

Attachment 2 demonstrates how a 1% increase in the cannabis tax rate will alter the total cumulative tax amount, and tax remitted to the City of San Bruno, when cannabis goods are purchased at a commercial cannabis retailer.

**ENVIRONMENTAL IMPACT:** The introduction of the ordinance is not considered a “Project” per CEQA Guidelines. As defined in CEQA Guidelines Section 15378 (b)(4), “Project” does not include “the creation of governmental funding mechanisms or other governmental fiscal activities which do not involve any commitment to any specific project which may result in a potentially significant physical impact on the environment.” Therefore, no further environmental analysis is required.

**RECOMMENDATION:** Introduce, read by title only, and waive further reading of an 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.

**ATTACHMENTS:**

1. Ordinance
2. Sample Cannabis Tax Rates