County of Los Angeles
CHIEF EXECUTIVE OFFICE
OPERATIONS CLUSTER

FESIA A. DAVENPORT
Chief Executive Officer

DATE: July 27, 2022
TIME: 2:00 P.M. – 4:00 P.M.
LOCATION: **TELECONFERENCE CALL-IN NUMBER: 1(323)776-6996**
TELECONFERENCE ID: 439827168#

To Join Via Phone, Dial 1(323)776-6996, Then Press 439827168#.

YOU CAN ALSO JOIN THIS MEETING BY CLICKING ON THE FOLLOWING LINK:
Click here to join the meeting

THIS MEETING WILL CONTINUE TO BE CONDUCTED VIRTUALLY TO ENSURE THE SAFETY OF MEMBERS OF THE PUBLIC AND EMPLOYEES AS PERMITTED UNDER STATE LAW

AGENDA

Members Of The Public May Address The Operations Cluster On Any Agenda Item After All Informational Items Are Presented. Two (2) Minutes Are Allowed For Each Item.

1. **Call To Order – Kirk Shelton/Anthony Baker**

2. **INFORMATIONAL ITEM(S):**

   A) Board Letter:
   REQUEST APPROVAL OF AMENDEMENT NUMBER SIX TO CONTRACT NUMBER 15-003 WITH K&H PRINTERS-LITHOGRAPHERS, INC. (K&H) FOR OUTGOING VOTE BY MAIL ELECTION MAILING SERVICES
   RR/CC – Albert Navas, Assistant Register-Recorder/County Clerk

   B) Board Memo:
   NOTIFICATION OF INTENT TO ENTER INTO NEGOTIATIONS FOR SOLE SOURCE AMENDMENT TO AGREEMENT WITH ORACLE AMERICA, INC. (ORACLE) TO PROVIDE CONTINUOUS SUPPORT FOR THE DEVELOPMENT OF ASSESSOR MODERNIZATION PROJECT (AMP) PHASE IV
   ASSESSOR – Steven Hernandez, Assistant Assessor and
   Kevin Lechner, Assistant CIO

CONTINUED ON PAGE 2

C) Board Letter:
CANNABIS BUSINESS TAX ORDINANCE AND BALLOT MEASURE
DCBA – Rafael Carbajal, Director, Consumer and Business Affairs

3. **PRESENTATION/DISCUSSION ITEMS:**

None available.

4. **Public Comment**
(2 Minutes Each Speaker)

5. **NOTICE OF CLOSED SESSION**

CS-1 CONFERENCE WITH LEGAL COUNSEL – EXISTING LITIGATION
(Paragraph (1) of Subdivision (d) of Government Code Section 54956.9)

Timothy McNamara v. County of Los Angeles
Los Angeles Superior Court Case No. 21STCV33477
Department: Registrar-Recorder/County Clerk

6. **Adjournment**

FUTURE AGENDA TOPICS

CALENDAR LOOKAHEAD:

None available.

BOARD LETTER/MEMO
CLUSTER FACT SHEET

☒ Board Letter ☐ Board Memo ☐ Other

CLUSTER AGENDA REVIEW DATE	7/27/2022
BOARD MEETING DATE	8/9/2022
SUPERVISORIAL DISTRICT AFFECTED	☒ All ☐ 1st ☐ 2nd ☐ 3rd ☐ 4th ☐ 5th
DEPARTMENT(S)	Registrar-Recorder/County Clerk
SUBJECT	REQUEST APPROVAL OF SOLE SOURCE AMENDMENT NUMBER SIX TO CONTRACT NUMBER 15-003 WITH K&H PRINTERS-LITHOGRAPHERS, INC. (K&H) FOR OUTGOING VOTE BY MAIL (VBM) ELECTION MAILING SERVICES
PROGRAM	
AUTHORIZES DELEGATED AUTHORITY TO DEPT	☒ Yes ☐ No
SOLE SOURCE CONTRACT	☒ Yes ☒ No
	If Yes, please explain why: The RR/CC requests Board approval for the attached Amendment Number Six to increase the total maximum contract sum. The increase will allow K&H to complete outgoing VBM election mailing services for the November 8, 2022 General Election and future elections through the end of the contract on December 31, 2024.
DEADLINES/ TIME CONSTRAINTS	November 8, 2022 election and future elections
COST & FUNDING	Total cost increase: $50,491,031 The estimated cost break down is $38,762,392 for scheduled elections and $11,728,639.19 for optional work to accommodate for potential unscheduled/special elections that may occur during this period, as needed, for a maximum contract sum of $94,400,061. Funding source: Approved Department operating budget
	TERMS (if applicable):
	Explanation:
PURPOSE OF REQUEST	Requests approval of a sole source amendment to the existing K&H contract approved by your Board on August 11, 2015, as a result of a competitive Invitation for Bids (IFB) for outgoing Vote by Mail (VBM) services. The purpose of the amendment is to increase the contract maximum amount due to the passage and adoption of the California Voter's Choice Act (VCA) in 2020 that requires the RR/CC to mail a ballot to all registered voters, and increases to the price of paper.
BACKGROUND (include internal/external issues that may exist including any related motions)	In accordance with Board Policy 5.100, the RR/CC must provide a four-week Board notification to enter into sole source negotiations. The RR/CC Board Notice was submitted on April 6, 2022. Contracted services include producing and mailing VBM packets, which include a VBM ballot, "I Voted" Sticker, other election materials, and various voter education and outreach flyers. The existing contract with K&H does not have sufficient funding authority to cover the November 8, 2022, Gubernatorial General election or subsequent elections thereafter.
EQUITY INDEX OR LENS WAS UTILIZED	☐ Yes ☒ No If Yes, please explain how:
SUPPORTS ONE OF THE NINE BOARD PRIORITIES	☐ Yes ☒ No If Yes, please state which one(s) and explain how:
DEPARTMENTAL CONTACTS	Name, Title, Phone # & Email: Albert Navas, Assistant RR/CC, (562) 462-2652, ANavas@rrcc.lacounty.gov

August 9, 2022

The Honorable Board of Supervisors
County of Los Angeles
383 Kenneth Hahn Hall of Administration
500 West Temple Street
Los Angeles, California 90012

Dear Supervisors:

REQUEST APPROVAL OF AMENDMENT NUMBER SIX TO CONTRACT NUMBER 15-003 WITH K&H PRINTERS-LITHOGRAPHERS, INC. (K&H) FOR OUTGOING VOTE BY MAIL ELECTION MAILING SERVICES

(ALL DISTRICTS) (3 VOTES)

SUBJECT

The Department of Registrar-Recorder/County Clerk (Department or RR/CC) requests approval to execute a sole source amendment with K&H to increase the contract sum for additional outgoing Vote by Mail (VBM) election mailing services through December 31, 2024. The increase is required due to the implementation of the California Voter's Choice Act in 2020, which now requires a VBM ballot to be mailed to every registered voter in Los Angeles County (County) in County elections, and increases in the price of paper.

IT IS RECOMMENDED THAT YOUR BOARD:

Delegate authority to the RR/CC, or his designee, to execute Amendment Number Six, substantially similar to Attachment 1, effective September 1, 2022, to December 31, 2024 for a total maximum dollar amount not to exceed $50,491,031. The estimated increase consists of $38,762,392 for scheduled elections including the 2022 Gubernatorial General election and the 2024 Presidential Primary and General elections, and $11,728,639.19 for optional work to accommodate potential unscheduled/special elections that may occur during this period, for a maximum contract sum of $94,400,061.

PURPOSE / JUSTIFICATION OF RECOMMENDED ACTION

The RR/CC requests Board approval for the attached Amendment Number Six to increase the total maximum contract sum. The increase will allow K&H to complete outgoing VBM election mailing services for the November 8, 2022, General Election, and future elections through the end of the contract on December 31, 2024.

While the current contract is not scheduled to expire until December 2026, RR/CC intends to conduct a competitive contract solicitation for a new contract. The RR/CC contracts unit will begin the solicitation process in October 2022 in anticipation of new contract starting in December 2024.

K&H Election Mailing Services

K&H is the contractor responsible for printing and producing VBM packets which are mailed to voters ahead of each election. VBM packets contain various election materials such as voter instructions, the "I Voted" Sticker, the VBM ballot and a return envelope. The RR/CC works closely with K&H to provide full-service outgoing VBM Election Mailing Services using state of the art equipment at K&H's mailing facility.

California Voter’s Choice Act

The primary factor driving the need for this contract sum increase amendment is the California Voter’s Choice Act (VCA) (codified in Elections Code section 4005 et. seq.), which was fully implemented in Los Angeles County in 2020, four years ahead of schedule (originally 2024), and in response to the COVID-19 pandemic. The early adoption of the VCA by your Board ensures that all voters receive a VBM ballot and have an additional safe and accessible voting option.

Under the VCA, all registered, active voters are mailed a VBM ballot 29 days before election day. Prior to the enactment and implementation of the VCA, voters were required to request a VBM ballot if they desired one. The previous process resulted in approximately 2 million voters requesting VBM ballots during major countywide elections. With the full implementation of the VCA in Los Angeles County, the RR/CC is now required to automatically mail a VBM ballot to approximately all 5.7 million registered voters in every Countywide election.

Since 2020, the RR/CC has mailed approximately 5.7 million VBM ballots during each of the following Countywide elections, thus depleting the total contract budget.

- November 3, 2020 - General Election
- September 14, 2021 - California Gubernatorial Recall Election
    - Note: This election was an unplanned and unscheduled Special Election.
- June 7, 2022 - Statewide Direct Primary Election

The RR/CC also mails VBM ballots to absent military service members and overseas voters in each election, and to eligible voters in local elections.

Material Cost Increase

The price of paper and envelopes has seen a sharp increase in the last two years. Macro-economic factors such as rising transportation cost due to oil prices, staffing shortages, and supply chain disruptions have contributed to an overall 21% contract increase over current prices in the agreement approved by your Board on June 12, 2018. The overall Consumer Price Index (CPI) has increased to 8.0 % in the last year, and 15.9 percent since May 2018. And other commodities such as paper availability and cost continues to be a concern.

Upcoming Elections

During the amendment term from September 1, 2022 to December 31, 2024, the RR/CC anticipates having to conduct six elections, including three Countywide elections. In addition to scheduled elections, the amendment provides the RR/CC with flexibility to provide voters with outgoing VBM Election Mailing services in the event of any unscheduled elections.

The next scheduled Countywide election is the November 8, 2022, General Election for which approximately 5.7 million ballots will be mailed out to voters.

Implementation of Strategic Plan Goals

This request supports the County Strategic Plan as follows:

Goal No. III, Realize Tomorrow's Government Today: Our increasingly dynamic and complex environment challenges our collective abilities to respond to public needs and expectations. RR/CC strives to be an innovative, flexible, effective, and transparent partner focused on public service and advancing the common good.

FISCAL IMPACT / FINANCING

The total maximum cost over the term of this Amendment Number Six effective from September 1, 2022 through December 31, 2024 will be $50,491,031. Of that amount, $38,762,392 is allocated for scheduled elections including the 2022 Gubernatorial General election and the 2024 Presidential Primary and General elections, and the remaining $11,728,639.19 for optional work which is allocated for unscheduled elections that may be called during this period. The Fiscal Year 2022-2023 Adopted Budget includes an adjustment to ongoing funding to account for the increased cost of service required under the VCA.

The original contract sum approved by your Board on June 12, 2018, was $43,909,030. Amendment number six will bring the entire contract sum since inception to $94,400,061. This amount includes optional work for unforeseen elections.

CONTRACTING PROCESS

The current contract was conducted as a competitive Invitation for Bids (IFB) initially approved by your Board on August 11, 2015 for Outgoing VBM election mailing services to assist with the preparation and delivery of VBM ballots to voters The IFB was open from March 17, 2015 to May 1, 2015.The contract was amended on June 12, 2018 to incorporate additional services resulting from the Voting Solutions for All People (VSAP), and to extend the contract term. The current agreement is due to expire on December 31, 2024 if the County does not exercise any option to extend.

On April 6, 2022, the RR/CC submitted the notification of intent to negotiate a sole source amendment with K&H and presented on the matter at the Operations Cluster Meeting. Negotiations were held after the four-week waiting period in June 2022. See Sole Source Checklist (Attachment 2).

FACTS AND PROVISIONS / LEGAL REQUIREMENTS

The RR/CC is responsible for the conduct of federal, state, and municipal elections, including special elections. This includes, but is not limited to, voter registration, maintenance of voter files, precincting, candidate filing, petitions, production of ballots, printing and mailing of VBM ballots and ballot materials, vote center operations and the tabulation of election results.

This Amendment ensures continuation of outgoing VBM Election Mailing Services for approximately 5.7 registered voters in the County in upcoming elections through the expiration of the contract on December 31, 2024.   These services are necessary to meet functional, business and legal requirements mandated by the California Elections Code.

County Counsel has reviewed this Board letter and attached Amendment and has approved the Amendment as to form. The Amendment contains County standard provisions and is in compliance with all Board of Supervisors, Chief Executive Office (CEO), and County Counsel requirements.

IMPACT ON CURRENT SERVICES

Approval of the recommended action will ensure that VBM ballots are mailed to approximately all 5.7 million active, registered voters in Los Angeles County during major elections through December 31, 2024.

Respectfully submitted,

DEAN C. LOGAN
Registrar-Recorder/County Clerk

DCL:JG:MF:AN:NH
VW:ca

Attachments

c: Executive Office, Board of Supervisors
Chief Executive Office
County Counsel

AMENDMENT NUMBER SIX

TO AGREEMENT #15-003

WITH

K&H PRINTERS-LITHOGRAPHERS, INC.

FOR

OUTGOING VOTE BY MAIL ELECTION MAILING SERVICES

AMENDMENT NUMBER SIX
TO AGREEMENT #15-003
K&H PRINTERS-LITHOGRAPHERS, INC.
FOR OUTGOING VOTE BY MAIL ELECTION MAILING SERVICES

This Amendment Number Six ("Amendment Number Six") to Agreement Number 15-003 ("Agreement") is entered into this _________ day of ___________________, 2022 by and between County of Los Angeles, a political subdivision of the State of California ("County") and K&H Printers-Lithographers, Inc., ("Contractor"). County and Contractor are sometimes hereinafter referred to collectively as the "Parties" and each individually as a "Party."

WHEREAS, the Agreement was originally entered into by and between County and K&H Printers-Lithographers, Inc. ("K&H") on September 1, 2015 and approved by the County's Board of Supervisors on August 11, 2015;

WHEREAS, that certain Amendment Number One dated May 11, 2016, the Agreement was further amended to, among other things, (i) revise the layout and design specifications of outgoing and return Vote by Mail envelopes; and (ii) replace Exhibit B (Pricing Schedule) with a new Exhibit B (Pricing Schedule) (Revised May 2016);

WHEREAS, that certain Amendment Number Two dated June 12, 2018, the Agreement was further amended to, among other things, (i) extend the Initial Term of the Agreement through December 31, 2024, (ii) increase the Contract Sum, (iii); add new services to the Statement of Work and; (iv) revise the pricing sheet;

WHEREAS, that certain Amendment Number Three dated September 21, 2020, the Agreement was further amended to, among other things, (i) add Paragraph 8.0 (Standard Terms and Conditions), Sub-Paragraph 8.54 (Compliance with County's Zero Tolerance Policy on Human Trafficking) in its entirety; (ii) add Paragraph 8.0 (Standard Terms and Conditions), Sub-Paragraph 8.55 (Compliance with Fair Chance Employment Practices) in its entirety; (iii) add Paragraph 8.0 (Standard Terms and Conditions), Sub-Paragraph 8.56 (Compliance with the County Policy of Equity) in its entirety; (iv) add Paragraph 8.0 (Standard Terms and Conditions), Sub-Paragraph 8.57 (Prohibition from Participation in Future Solicitation(s)) in its entirety; (v) delete Exhibit A, (Statement of Work) (Revised June 2018) in its entirety and replace with a revised Exhibit A, (Statement of Work) (Revised September 2020); (vi) delete Exhibit B, (Pricing Schedule) (Revised June 2018) in its entirety and replace with a revised Exhibit B, (Pricing Schedule) (Revised September 2020); (vii) delete Exhibit E, (County's Administration) in its entirety and replace with a revised Exhibit E, (County's Administration) (Revised September 2020); (viii) delete Exhibit F, (Contractor's Administration) in its entirety and replace with a revised Exhibit F, (Contractor's Administration) (Revised September 2020); (viii) incorporate Exhibit M (Zero Tolerance Policy of Human Trafficking) into the contract; and (ix) incorporate Exhibit N (Compliance with Fair Chance Employment Hiring Practices Certification) into the contract;

WHEREAS, that certain Amendment Number Four dated March 23, 2021, the Agreement was further amended to, among other things, (i) delete Exhibit A (Statement of Work) (Revised September 2020) in its entirety and replace with a revised Exhibit A (Statement of Work) (Revised as of Amendment #4 - March 23, 2021 through December 31, 2024); (ii) delete Exhibit B (Pricing Schedule) (Revised September 2020) in its entirety and replace with a revised Exhibit B (Pricing Schedule) (Revised as of Amendment #4 - March 23, 2021 through December 31, 2024); and (iii) delete Paragraph 4.0 (Term of Contract), Paragraph 4.2;

WHEREAS, that certain Amendment Number Five dated June 24, 2021, the Agreement was further amended to, among other things, (i) delete and replace Paragraph 4 (Ballot Production), Subtask 4.2 (Mail Ballot Production), subparagraph c in Exhibit A (Statement of Work) (Revised as of Amendment #4 – March 23,2021 through December 31, 2024) ; and (ii) delete Exhibit B (Pricing Schedule) (Revised as of Amendment #4 - March 23, 2021 through December 31, 2024) and replace with a revised Exhibit B (Pricing Schedule) (Revised June 2021);

WHEREAS, County and Contractor wish to further amend the Agreement to, among other things, (i) increase the contract sum through December 31, 2024; (ii) replace the Safely Surrendered Baby Law program website link; (iii) delete and replace Paragraph 8.2 (Assignment and Delegation/Mergers or Acquisitions); (iv) delete and replace Paragraph 8.55 (Compliance with Fair Chance Employment Hiring Practices); (v) incorporate Paragraph 8.0 (Standard Terms and Conditions), Sub-Paragraph 8.58 (COVID-19 Vaccinations of County Contractor Personnel); (vi) delete Exhibit B (Pricing Schedule) (Revised June 2021) and replace with a revised Exhibit B (Pricing Schedule) (Revised August 2022); and (vii) incorporate Exhibit O (COVID-19 Vaccination Certification of Compliance); and

WHEREAS, this Amendment Number Six is made pursuant to Paragraph 8.0 (Standard Terms and Conditions), subparagraph 8.1 (Amendments) of the Agreement, and the following amendments are made to the Agreement.

NOW THEREFORE, in consideration of the foregoing and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the Agreement, is hereby amended as follows:

1. Paragraph 5.0 (Contract Sum), Subparagraph 5.1 of the Agreement is hereby deleted in its entirety, and in its place shall be inserted the following new Paragraph 5.0 (Contract Sum), Subparagraph 5.1 to read as follows:

5.0 CONTRACT SUM

5.1 "The Maximum Amount of this Contract upon approval by the Board of Supervisors from September 1, 2022 to December 31, 2024 is $50,491,031. The estimated cost break down is $38,762,392 for scheduled elections and a contingency of $11,728,639.19 to accommodate for potential unscheduled/special elections that may occur during this period, as-needed.

2. The website link to Paragraph 8.0 (Standard Terms and Conditions) Sub-Paragraph 8.13 (Contractor's Acknowledgement of County's Commitment to Safely Surrendered Baby Law) is hereby deleted and replaced with a new website link and incorporated in its entirety to read as follows:

   https://lacounty.gov/residents/family-services/child-safety/safe-surrender/

3. Paragraph 8.0 (Standard Terms and Conditions), Sub-Paragraph 8.2 (Assignment and Delegation) of the Contract is hereby deleted in its entirety and shall be replaced with a new Paragraph 8.0 (Standard Terms and Conditions), Sub-Paragraph 8.2 (Assignment and Delegation/Mergers or Acquisitions) and incorporated in its entirety to read as follows:

8.2 Assignment and Delegation/Mergers or Acquisitions

8.2.1 The contractor must notify the County of any pending acquisitions/mergers of its company unless otherwise legally prohibited from doing so. If the contractor is restricted from legally notifying the County of pending acquisitions/mergers, then it should notify the County of the actual acquisitions/mergers as soon as the law allows and provide to the County the legal framework that restricted it from notifying the County prior to the actual acquisitions/mergers.

8.2.2 The contractor must not assign, exchange, transfer, or delegate its rights or duties under this Contract, whether in whole or in part, without the prior written consent of County, in its discretion, and any attempted assignment, delegation, or otherwise transfer of its rights or duties, without such consent will be null and void. For purposes of this paragraph, County consent will require a written Amendment to the Contract, which is formally approved and executed by the parties. Any payments by the County to any approved delegate or assignee on any claim under this Contract will be deductible, at County's sole discretion, against the claims, which the contractor may have against the County.

8.2.3 Any assumption, assignment, delegation, or takeover of any of the contractor's duties, responsibilities, obligations, or performance of same by any person or entity other than the contractor, whether through assignment, subcontract, delegation, merger, buyout, or any other mechanism, with or without consideration for any reason whatsoever without County's express prior written approval, will be a material breach of the Contract which may result in the termination of this Contract. In the event of such termination, County will be entitled to pursue the same remedies against contractor as it could pursue in the event of default by Contractor.

4. Paragraph 8.0 (Standard Terms and Conditions), Sub-Paragraph 8.55 Compliance with Fair Chance Employment Practices) of the Contract is hereby deleted in its entirety and shall be replaced with a new Paragraph 8.0 (Standard Terms and Conditions), Sub-Paragraph 8.55 (Compliance with Fair Chance Employment Hiring Practices) and incorporated in its entirety to read as follows:

8.55 Compliance with Fair Chance Employment Hiring Practices

Contractor, and its subcontractors, must comply with fair chance employment hiring practices set forth in California Government Code Section 12952. Contractor's violation of this paragraph of the Contract may constitute a material breach of the Contract. In the event of such material breach, County may, in its sole discretion, terminate the Contract

5. Paragraph 8.0 (Standard Terms and Conditions), Sub-Paragraph 8.58 (COVID-19 Vaccinations of County Contractor Personnel) is hereby added and incorporated in its entirety to read as follows:

16.58 COVID-19 Vaccinations of County Contractor Personnel

16.58.1 At Contractor's sole cost, Contractor must comply with Chapter 2.212 (COVID-19 Vaccinations of County Contractor Personnel) of County Code Title 2 - Administration, Division 4. All employees of Contractor and persons working on its behalf, including but not limited to, Subcontractors of any tier (collectively, "Contractor Personnel"), must be fully vaccinated against the novel coronavirus 2019 ("COVID-19") prior to (1) interacting in person with County employees, interns, volunteers, and commissioners ("County workforce members"), (2) working on County owned or controlled property while performing services under this Contract, and/or (3) coming into contact with the public while performing services under this Contract (collectively, "In-Person Services").

16.58.2 Contractor Personnel are considered "fully vaccinated" against COVID-19 two (2) weeks or more after they have received (1) the second dose in a 2-dose COVID-19 vaccine series (e.g. Pfizer-BioNTech or Moderna), (2) a single-dose COVID-19 vaccine (e.g. Johnson and Johnson [J&J]/Janssen), or (3) the final dose of any COVID-19 vaccine authorized by the World Health Organization ("WHO").

16.58.3 Prior to assigning Contractor Personnel to perform In-Person Services, Contractor must obtain proof that such Contractor Personnel have been fully vaccinated by confirming Contractor Personnel is vaccinated through any of the following documentation: (1) official COVID-19 Vaccination Record Card (issued by the Department of Health and Human Services, CDC or WHO Yellow Card), which includes the name of the person vaccinated, type of vaccine provided, and date of the last dose administered ("Vaccination Record Card"); (2) copy (including a photographic copy) of a Vaccination Record Card; (3) Documentation of vaccination from a licensed medical provider; (4) a digital record that includes a quick response ("QR") code that when scanned by a SMART HealthCard reader displays to the reader client name, date of birth, vaccine dates, and vaccine type, and the QR code confirms the vaccine record as an official record of the State of California; or (5) documentation of vaccination from Contractors who follow the CDPH vaccination records guidelines and standards. Contractor must also provide written notice to County before the start of work under this Contract that its Contractor Personnel are in compliance with the requirements of this section. Contractor must retain such proof of vaccination for the document retention period set forth in this Contract, and must provide such records to the County for audit purposes, when required by County.

16.58.4 Contractor will evaluate any medical or sincerely held religious exemption request of its Contractor Personnel, as required by law. If Contractor has determined that Contractor Personnel is exempt pursuant to a medical or sincerely held religious reason, the Contractor must also maintain records of the Contractor Personnel’s testing results. The Contractor must provide such records to the County for audit purposes, when required by County. The unvaccinated exempt Contractor Personnel must meet the following requirements prior to (1) interacting in person with County workforce members, (2) working on County owned or controlled property while performing services under this Contract, and/or (3) coming into contact with the public while performing services under this Contract:

16.58.4.1 Test for COVID-19 with either a polymerase chain reaction (PCR) or antigen test has an Emergency Use Authorization (EUA) by the FDA or is operating per the Laboratory Developed Test requirements by the U.S. Centers for Medicare and Medicaid Services. Testing must occur at least weekly, or more frequently as required by County or other applicable law, regulation or order.

16.58.4.2 Wear a mask that is consistent with CDC recommendations at all times while on County controlled or owned property, and while engaging with members of the public and County workforce members.

16.58.4.3 Engage in proper physical distancing, as determined by the applicable County department that the Contract is with.

In addition to complying with the requirements of this section, Contractor must also comply with all other applicable local, departmental, State, and federal laws, regulations and requirements for COVID-19. A completed Exhibit F (COVID-19 Vaccination Certification of Compliance) is a required part of any agreement with the County.

6. Exhibit B (Pricing Schedule) (Revised June 2021) of the Agreement is hereby deleted in its entirety and shall be replaced with a new Exhibit B (Pricing Schedule) (Revised August 2022), a true and correct copy of which is attached hereto and incorporated herein by this reference.

7. Exhibit O (COVID-19 Vaccination Certification of Compliance) is incorporated into the contract

Except as otherwise provided under this Amendment Number Six, the Agreement, and including all preambles and recitals set forth herein and therein, shall remain unchanged and in full force and effect.

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AMENDMENT NUMBER SIX
TO AGREEMENT #15-003
K&H PRINTERS-LITHOGRAPHERS, INC.
FOR OUTGOING VOTE BY MAIL ELECTION MAILING SERVICES

IN WITNESS WHEREOF, the Board of Supervisors of the County of Los Angeles has caused this Amendment Number Six to be subscribed on its behalf by the Registrar-Recorder/County Clerk or his/her designee and the Contractor has subscribed the same through its duly authorized officer as of the day, month and year first above written. The persons signing on behalf of Contractor warrant under penalty of perjury that he or she is authorized to bind the Contractor.

COUNTY OF LOS ANGELES

____
DEAN C. LOGAN
Registrar-Recorder/County Clerk

K&H PRINTERS-LITHOGRAPHERS, INC.

____
AUTHORIZED SIGNATURE

____
PRINT OR TYPE NAME

____
TITLE

____
Tax Identification Number

APPROVED AS TO FORM:
DAWYN R. HARRISON
Acting County Counsel

By________________________________
EVA W. CHU
Senior Deputy County Counsel

EXHIBIT B: PRICING SCHEDULE
OUTGOING VOTE BY MAIL ELECTION MAILING SERVICES

Exhibit B Pricing Schedule
Revised August 2022
Contract #15-003

For more information on the invoice process, see 5.6 (Invoices anjd Payments). Beginning with the date of the execution of amendment #XX (X/X/2022), contractor shall acrue a credit to the county in the amount of $500,000 for each calendar year the CONTRACTOR is allowed to perform ALL Section 4 Tasks and Deliverables in its Everett WA plant. Unused credit shall be applied as a minimum fifteen percent (15%) discount to each service invoice issued for Contract Services after the date of exectuion of Amendment #X, but not in excess of any accumulated credit.

LA Pricing

Item	**Notes**	**8.5x14**	**10.5x17**
Outer Envelope		0.098	0.121
Return Envelope		0.092	0.137
I Voter Sticker	Price of Sticker and application	0.054	0.054
Ballot Insert Wrap	If Wrap used, eliminate the multicard premium		
	1 card	0.15	0.21
	2 card	0.16	0.22
	3 card	0.18	0.23
	4 or 5 card	0.2	0.24
	6 or more card	0.22	0.25
Military Insert	full sheet - 8.5x11 - 1 sided	0.09	0.09
MP Precinct (MP) insert	All languages approx. 4.25x8.25 full color - 1 sided	n/a	n/a
Hava Insert	All languages approx. 4.25x8.25 full color - 2 sided	0.1	0.1
Sample Ballot Books (provided to us)	insertion of book into VBM packet	0.1	0.1
Sample Ballot Books (provided to us)	per booklet "version" provided	100	100
Ballot Cards	Price per ballot card (all ballot types referenced in Task 4: Ballot Production)	0.22	0.27
Machine Mail Assembly	Assemble single VBM packet	0.36	0.36
Multi-card Premium	Applied to each card beyond first	n/a	n/a
Subsequents (surcharge)	fee for each package after E-29 drop	0.1	0.1
Hand Assembly	As needed, used in place of machine assembly fee	0.6	0.6
Additional Generic Material	As needed, on an election to election basis. Included in the Election Plan for a particular election.	TBD	TBD
Roundtrip Tracking (English)	Variable IMB, data collection, and upload	0.03	0.03
Roundtrip Tracking Multilingual (ML)	Variable IMB, data collection, and upload	0.06	0.06

Storage Fee	Per Pallet per each month (includes logistics/handling)	$24 per pallet	one time pallet/handling fee $1100

County is responsible for use/sales tax and freight charges

COVID-19 Vaccination Certification of Compliance

Urgency Ordinance, County Code Title 2 – Administration, Division 4 – Miscellaneous – Chapter 2.212 (COVID-19 Vaccinations of County Contractor Personnel)

I, ______________________________, on behalf of ______________________________, (the "Contractor"), certify that on County Contract ________________________________[ENTER CONTRACT NUMBER AND NAME]:

____ All Contractor Personnel* on this Contract are fully vaccinated as required by the Ordinance.

____ Most Contractor Personnel* on this Contract are fully vaccinated as required by the Ordinance. The Contractor or its employer of record, has granted a valid medical or religious exemption to the below identified Contractor Personnel. Contractor will certify weekly that the following unvaccinated Contractor Personnel have tested negative within 72 hours of starting their work week under the County Contract, unless the contracting County department requires otherwise. The Contractor Personnel who have been granted a valid medical or religious exemption are [LIST ALL CONTRACTOR PERSONNEL]:

*Contractor Personnel includes subcontractors.

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____

____

I have authority to bind the Contractor, and have reviewed the requirements above and further certify that I will comply with said requirements.

______________________________ ______________________________
Signature Date

____
Title

____
Company/Contractor Name

Released December 14, 2021 Version 2

SOLE SOURCE CHECKLIST

Department Name: RR/CC

☐ New Sole Source Contract

☑ Sole Source Amendment to Existing Contract
Date Existing Contract First Approved: 8/31/2015

Check (✓)	**JUSTIFICATION FOR SOLE SOURCE CONTRACTS AND AMENDMENTS** **Identify applicable justification and provide documentation for each checked item.**
	➢ Only one bona fide source (monopoly) for the service exists; performance and price competition are not available. A monopoly is an "*Exclusive control of the supply of any service in a given market. If more than one source in a given market exists, a monopoly does not exist*."
	➢ Compliance with applicable statutory and/or regulatory provisions.
✓	➢ Compliance with State and/or federal programmatic requirements.
	➢ Services provided by other public or County-related entities.
✓	➢ Services are needed to address an emergent or related time-sensitive need.
	➢ The service provider(s) is required under the provisions of a grant or regulatory requirement.
	➢ Services are needed during the time period required to complete a solicitation for replacement services; provided services are needed for no more than 12 months from the expiration of an existing contract which has no available option periods.
	➢ Maintenance and support services are needed for an existing solution/system during the time to complete a solicitation for a new replacement solution/system; provided the services are needed for no more than 24 months from the expiration of an existing maintenance and support contract which has no available option periods.
	➢ Maintenance service agreements exist on equipment which must be serviced by the original equipment manufacturer or an authorized service representative.
	➢ It is more cost-effective to obtain services by exercising an option under an existing contract.
	➢ It is in the best economic interest of the County (e.g., significant costs and time to replace an existing system or infrastructure, administrative cost and time savings and excessive learning curve for a new service provider, etc.). In such cases, departments must demonstrate due diligence in qualifying the cost-savings or cost-avoidance associated with the best economic interest of the County.

Sheila Williams Digitally signed by Sheila Williams
Date: 2022.07.18 15:48:34 -07'00'

Chief Executive Office

Date

LOS ANGELES COUNTY
REGISTRAR-RECORDER/COUNTY CLERK

DEAN C. LOGAN
Registrar-Recorder/County Clerk

April 6, 2022

TO: Supervisor Holly J. Mitchell, Chair
Supervisor Hilda L. Solis
Supervisor Sheila Kuehl
Supervisor Janice Hahn
Supervisor Kathryn Barger

Fesia Davenport, Chief Executive Officer

FROM: Dean C. Logan, Registrar-Recorder/County Clerk

NOTIFICATION OF INTENT TO NEGOTIATE A SOLE SOURCE AMENDMENT TO CONTRACT #15-003 WITH K&H PRINTERS-LITHOGRAPHERS, INC. (K&H) FOR OUTGOING VOTE BY MAIL ELECTION MAILING SERVICES

This is to inform your Board of the Registrar-Recorder/County Clerk's (RR/CC) intent to negotiate a sole source amendment to the existing K&H contract approved by your Board on September 1, 2015, for outgoing Vote by Mail (VBM) services. The purpose of the amendment is to increase the contract maximum amount due to the passage and adoption of the California Voter's Choice Act (VCA) in 2020 that required the RR/CC to mail a ballot to all registered voters. Between 2018 and 2020, the number of voters receiving VBM ballots increased from 2.5 million to over 5.6 million for Countywide elections. Additionally, the increased frequency in unscheduled elections over the last year, which included a Gubernatorial Recall and several State Senate and Assembly special elections, has accelerated the depletion of our contract authority.

The existing agreement with K&H is set to expire on December 31, 2026, if all optional extension periods are exercised. We intend to increase the contract maximum amount to allow for services to continue through December 2024. This will allow time to release a Request for Proposal (RFP) for VBM services while maintaining support through the 2024 election year, which includes the 2024 Presidential Election.

Contracted services include producing and mailing VBM packets, which include a VBM ballot, "I Voted" Sticker, other election materials, and various voter education and outreach flyers.

Fiscal Impact

The existing contract with K&H has sufficient funding authority to cover the June 7, 2022, Statewide Direct Primary Election; however, it will not cover subsequent elections, including the November 8, 2022, Statewide General Election. It is therefore necessary to negotiate a sole source amendment with K&H to prevent any interruption with VBM services for upcoming elections, and to allow time for RR/CC to release a VBM services RFP for elections after 2024.

The sole source amendment will not require additional Net County Cost (NCC), as VBM costs are part of the RR/CC's approved funding base.

Closing

In accordance with Board Policy 5.100, the RR/CC must provide a four-week Board notification to enter into sole source negotiations. We will proceed to enter into negotiations with K&H after the four-week notification period unless otherwise directed. The negotiated amendment with K&H is expected to be presented at the Operations Cluster Meeting no later than July 20, 2022.

If you have any questions, please contact me at (562) 462-2716 or email dlogan@rrcc.lacounty.gov. Your staff may also contact Veronica Williams, Contracts and Grants Manager, at (562) 383-2539 or email vwilliams@rrcc.lacounty.gov.

Thank you.

DCL:JG:AN
NH:VW:ca

c: Chief Executive Office
Executive Office, Board of Supervisors
Board Deputies
County Counsel

BOARD LETTER/MEMO
CLUSTER FACT SHEET

☐ Board Letter ☒ Board Memo ☐ Other

CLUSTER AGENDA REVIEW DATE	7/27/2022
BOARD MEETING DATE	N/A
SUPERVISORIAL DISTRICT AFFECTED	☒ All ☐ 1st ☐ 2nd ☐ 3rd ☐ 4th ☐ 5th
DEPARTMENT(S)	OFFICE OF THE ASSESSOR
SUBJECT	NOTIFICATION OF INTENT TO ENTER INTO NEGOTIATIONS FOR SOLE SOURCE AMENDMENT TO AGREEMENT WITH ORACLE AMERICA, INC. (ORACLE) TO PROVIDE CONTINUOUS SUPPORT FOR THE DEVELOPMENT OF ASSESSOR MODERNIZATION PROJECT (AMP) PHASE IV
PROGRAM	N/A
AUTHORIZES DELEGATED AUTHORITY TO DEPT	☐ Yes ☒ No
SOLE SOURCE CONTRACT	☒ Yes ☐ No If Yes, please explain why: Sole Source Amendment Three is an extension of current Sole Source Agreement. Introducing a new vendor would introduce new risk and considerably disrupt development efforts and team chemistry of the project. Without the extension of schedule, scope, and contract sum, the Assessor will not be able to successfully complete Phase IV of AMP, forcing the department to continue its critical operations on legacy systems and manual processes.
DEADLINES/ TIME CONSTRAINTS	AMP Phase IV is scheduled to end October 2022. Sole Source Amendment Three would extend Phase IV to October 2023.
COST & FUNDING	Total cost: *TBD* — Funding source: Assessor FY 2021-22 Dept. Savings TERMS (if applicable): Explanation: All previously negotiated terms and conditions of the existing Agreement will remain in full effect. The AMP Phase IV SOW will be amended to add additional scope and schedule. Amendment will require increased expenditures.
PURPOSE OF REQUEST	AMP Phase IV requires an extension to address several shortfalls identified during the past six (6) months of extensive integration testing. Shortfalls have resulted from code defects and missed requirements from hidden processes in the legacy systems. These shortfalls have impacted testing progress significantly, taking time to ensure system requirements and defects are analyzed, validated and remediated. Previously reported loss of critical experienced legacy and project resources also continue to impact the schedule. The ability to mitigate these challenges continues to be affected by hiring challenges during the Pandemic, as well as working around a resource intensive assessment roll season for both our department, and our partner departments.
BACKGROUND (include internal/external issues that may exist including any related motions)	In November 2019, the Assessor started Phase IV of AMP to decommission the mainframe (PDB) by building new processes and functionalities on top of the foundational pieces successfully built in the prior phases. Several unplanned critical factors impacted the scope and schedule of the project, requiring the Assessor to request the first extension (Amendment One dated November 16, 2021) of schedule and scope beyond its delegated authority. On January 20, 2022, Amendment Two was executed to amend Exhibit I, County's Information Security Policy to Phase IV.
EQUITY INDEX OR LENS WAS UTILIZED	☐ Yes ☒ No If Yes, please explain how:
SUPPORTS ONE OF THE NINE BOARD PRIORITIES	☐ Yes ☒ No If Yes, please state which one(s) and explain how:
DEPARTMENTAL CONTACTS	Name, Title, Phone # & Email: • Steven Hernandez, Assistant Assessor, 213-974-3123, SHernandez@assessor.lacounty.gov • Kevin Lechner, Assistant CIO, 213-893-0905, KLechner@assessor.lacounty.gov

JEFFREY PRANG
ASSESSOR
COUNTY OF LOS ANGELES
500 WEST TEMPLE STREET, ROOM 320
LOS ANGELES, CALIFORNIA 90012-2770
assessor.lacounty.gov
(213) 974-3101

ASSESSOR Los Angeles County

Valuing People and Property

July 27, 2022

TO: Supervisor Holly J. Mitchell, Chair
Supervisor Hilda L. Solis
Supervisor Sheila Kuehl
Supervisor Janice Hahn
Supervisor Kathryn Barger

FROM: Jeffrey Prang
Assessor

NOTIFICATION OF INTENT TO ENTER INTO NEGOTIATIONS FOR SOLE SOURCE AMENDMENT TO AGREEMENT WITH ORACLE AMERICA, INC. (ORACLE) TO PROVIDE CONTINUOUS SUPPORT FOR THE DEVELOPMENT OF ASSESSOR MODERNIZATION PROJECT (AMP) PHASE IV

In accordance with Board Policy 5.100, Sole Source Contracts, this correspondence provides notification to your Board that the Office of the Assessor (Assessor) intends to enter into negotiations for a sole source Amendment with Oracle America, Inc. (Oracle) to provide continuous support for the development of Phase IV of the Assessor Modernization Project (AMP). The Amendment will extend the term for Phase IV, provide additional scope, and increase the Maximum Contract Sum. The Assessor will bring the negotiated Amendment back to the Board for approval.

BACKGROUND

Over the last several years, the Assessor has executed modernization efforts aimed at replacing historical legacy systems via the development of an integrated property assessment replacement system known as AMP. AMP is a five (5) phase agile development project being co-developed with Oracle Consulting Services.

On June 16, 2015, your Board authorized the first Work Order for AMP under the Master Service Agreement with Oracle to develop Phase I, which produced the overall enterprise architecture and foundation for AMP. On November 9, 2016, your Board authorized Phase II of AMP which built on the groundwork developed in Phase I and provided additional functional components. On May 29, 2018, your Board authorized Phase III of AMP which continued the development of key processes designed to intake, manage and initiate data and documents to support new AMP business processes, and further laid the architectural and technical foundation for Phase IV. On October 29, 2019, your Board authorized Phase IV of AMP which involved an accelerated delivery of new construction functionality to continue design and implementation to support roll services, property statements, specialized assessments, automated process for handling new construction, market-based valuation, and case management for new construction. On November 16, 2021, your Board authorized Amendment One to Phase IV which extended the development for an additional eleven (11) months, increased scope, and include Time and Materials on an as-needed basis to provide extended development support for AMP. On January 20, 2022, Amendment Two was executed to amend Exhibit I, County's Information Security Policy to Phase IV of AMP.

JUSTIFICATION

In November 2019, the Assessor started Phase IV of AMP, a phase dedicated to decommissioning the mainframe (PDB) by building new processes and functionality on-top of the foundational pieces successfully built in the prior phases. During this phase, several unplanned critical factors impacted the scope and schedule of the project, requiring the Assessor to request the first extension of schedule and scope beyond its delegated authority.

The most critical factor was the Covid-19 Pandemic which disrupted working patterns between the Oracle and Assessor teams. While we continued to make progress remotely on the project, it lengthened the cycles needed to define requirements, design and test the solution. In addition, the pandemic prevented the Assessor from filling critical development resources to meet its co-development obligations.

California legislative changes also required unplanned scope additions. Specifically Proposition 19, which passed in November 2020, required changes in the processing requirements.

With the approved extension, the Assessor was able to finalize requirements and complete most of the development work for Phase IV. However, the Assessor has spent the past six (6) months executing extensive integration testing on the new system and its components, and in the process, identified several shortfalls that must be addressed before shutting off the legacy mainframe. Shortfalls have resulted from code defects and missed requirements from hidden processes in the legacy systems, and are being mitigated appropriately. These shortfalls, however, have impacted our testing progress significantly, taking time to ensure system requirements and defects are analyzed, validated and remediated.

In addition, and as previously reported, the loss of critical experienced legacy and project resources (both at the Assessor and Oracle) also continue to impact the schedule. The ability to mitigate these challenges continues to be affected by hiring challenges during the Pandemic, as well as working around a resource intensive assessment roll season for both our department, and our partner departments. We continue to collaborate with the CIO, Auditor-Controller, Treasurer and Tax Collector, and ISD to ensure a successful transition off of our legacy systems.

The Assessor has submitted a request for additional funding in the FY 2022-23 Supplemental Changes budget phase to address term extension and increased scope. Without the extension of both schedule and scope, the Assessor will not be able to successfully complete Phase IV of AMP, forcing the department to continue its critical operations on legacy systems and manual processes.

County Counsel will approve the Amendment as to form. The Chief Information Officer (CIO) concurs with the Assessor's recommendation to enter into negotiations.

CONCLUSION

Despite the factors mentioned above, there has been significant success on the current Phase IV contract including one major release, a cloud migration resulting in significant internal savings, and most of the final development of Phase IV completed. However, the integration testing efforts have identified shortfalls in the system that must be remediated before the Assessor can decommission its mainframe. The shortfalls are owned by both the Assessor and Oracle, and will be addressed accordingly through Amendment negotiations.

To date, Oracle has provided professional service and partnership, understanding project expectations, and is committed to the success of AMP. The Assessor's continued partnership with Oracle will provide project continuity and final delivery of a fully integrated and modernized assessment system.

Unless otherwise directed by your Board, the Assessor will proceed with Amendment Three negotiations with Oracle for AMP Phase IV within two (2) weeks from the date of this notification.

Should you have any questions or require additional information, please contact me directly or your staff may contact Steven Hernandez, Assistant Assessor, Administration, at (213) 974-3123.

JP:SMH:st

c: Chief Executive Office
Chief Information Office
Executive Officer, Board of Supervisors
County Counsel
Auditor-Controller
Internal Services Department
Treasurer and Tax Collector
Registrar-Recorder/County Clerk

BOARD LETTER/MEMO
CLUSTER FACT SHEET

☒ Board Letter ☐ Board Memo ☐ Other

CLUSTER AGENDA REVIEW DATE	7/27/2022	
BOARD MEETING DATE	8/9/2022	
SUPERVISORIAL DISTRICT AFFECTED	☒ All ☐ 1st ☐ 2nd ☐ 3rd ☐ 4th ☐ 5th	
DEPARTMENT(S)	Department of Consumer and Business Affairs, Treasurer & Tax Collector, Registrar Recorder	
SUBJECT	Cannabis Tax Ordinance and Ballot Measure	
PROGRAM	Office of Cannabis Management	
AUTHORIZES DELEGATED AUTHORITY TO DEPT	☐ Yes ☒ No	
SOLE SOURCE CONTRACT	☐ Yes ☒ No	
	If Yes, please explain why:	
DEADLINES/ TIME CONSTRAINTS	August 9 Board approval deadline to place on November Ballot	
COST & FUNDING	Total cost: None	Funding source: N/A
	TERMS (if applicable):	
	Explanation: If ballot measure is approved by voters, anticipated general fund revenue of $10.360M annually from cannabis business taxes on gross receipts and cultivation.	
PURPOSE OF REQUEST	The Department of Consumer and Business Affairs (DCBA) is seeking Board approval to adopt the Cannabis Business Tax resolution to place a general tax measure on the November 8, 2022 election ballot, which would allow the County to tax cannabis businesses in the unincorporated areas of LA County if approved by a two-thirds vote of the County Board of Supervisors and a majority of the qualified voters voting in the election on the issue.	
BACKGROUND (include internal/external issues that may exist including any related motions)	On February 15, 2022, your Board directed DCBA Office of Cannabis Management (OCM) to develop an equitable commercial cannabis program. The Board also directed OCM to work with a tax consultant to report back with a proposed tax structure and fiscal analysis for commercial cannabis activities, including a potential voter measure for the November 2022 ballot.	
EQUITY INDEX OR LENS WAS UTILIZED	☐ Yes ☒ No If Yes, please explain how:	
SUPPORTS ONE OF THE NINE BOARD PRIORITIES	☐ Yes ☒ No If Yes, please state which one(s) and explain how:	
DEPARTMENTAL CONTACTS	Name, Title, Phone # & Email: Hyunhye Seo, Chief, Office of Cannabis Management of Department of Consumer and Business Affairs. hseo@dcba.lacounty.gov	

LOS ANGELES COUNTY
CONSUMER & BUSINESS AFFAIRS

Board of Supervisors

Hilda L. Solis
First District

Holly J. Mitchell
Second District

Sheila Kuehl
Third District

Janice Hahn
Fourth District

Kathryn Barger
Fifth District

Director
Rafael Carbajal

Chief of Staff
Joel Ayala

August 9, 2022

The Honorable Board of Supervisors
County of Los Angeles
383 Kenneth Hahn Hall of Administration
500 West Temple Street
Los Angeles, California 90012

Dear Supervisors:

ADOPT A RESOLUTION GIVING NOTICE OF AN ELECTION TO ENACT AN ORDINANCE PROPOSING A GENERAL TAX ON CANNABIS BUSINESSES IN THE UNINCORPORATED AREAS OF THE COUNTY TO BE HELD IN THE COUNTY OF LOS ANGELES ON NOVEMBER 8, 2022 (ALL DISTRICTS AFFECTED) (4 VOTES)

SUBJECT

The Department of Consumer and Business Affairs is seeking Board approval to adopt a resolution to place a general tax measure on the November 8, 2022 election ballot for approval by the voters, which would allow the County to tax cannabis businesses in the unincorporated areas of LA County.

IT IS RECOMMENDED THAT THE BOARD:

1. Adopt the attached resolution (Attachment A) authorizing submission of a proposed ordinance (Attachment B) regarding a general tax levied against cannabis businesses in the unincorporated areas of Los Angeles County to be voted on Countywide.

2. Instruct the Registrar-Recorder/ County Clerk to take all necessary actions to place the general tax on the ballot for the November 8, 2022, election.

3. Find the proposed actions are not a project under the California Environmental Quality Act (CEQA) pursuant to the State CEQA Guidelines, Section 15378.

PURPOSE/JUSTIFICATION OF RECOMMENDED ACTION

On July 13, 2021, your Board instructed the Director of the Department of Consumer and Business Affairs (DCBA) and its Office of Cannabis

Management (OCM) to revisit a 2017 report titled "Recommendations Report: Los Angeles County Advisory working Group on Cannabis Regulations",[1] and report back with updated recommendations for cannabis retail, manufacture, distribution, growth, testing, regulation, and enforcement in unincorporated Los Angeles County (County) that were rooted in an equity framework.

On December 20, 2021, DCBA/OCM provided your Board with the requested report back titled "Updated Framework and Recommendations for Regulating Commercial Cannabis in Unincorporated Los Angeles County."[2] The report back included zoning, land use, and regulatory recommendations for commercial cannabis, including a robust "Equity Program," which would offer appropriate resources and opportunities for communities disproportionately impacted by the overcriminalization of cannabis.

On February 15, 2022, your Board directed DCBA/OCM to proceed with the implementation of an equitable commercial cannabis regulatory framework as provided in the December 2021 Report and report back with a proposed tax structure and fiscal analysis for commercial cannabis activities, including a potential measure for voter approval on the November 2022 ballot.[3] (Item No. 6, Agenda of February 15, 2022).

On May 16, 2022, DCBA/OCM provided your Board with the requested report back titled "Implementing an Equitable Commercial Cannabis Regulatory Framework."[4] The report back advised that DCBA/OCM was working with a cannabis tax consultant and would return to the Board with findings and recommendations for a ballot resolution and proposed commercial cannabis tax ordinance noting the August 9, 2022 deadline to adopt a ballot measure for submission to the voters at the November 2022 general election.

The attached resolution (Attachment A) will place a measure on the November 2022 ballot requesting voter approval for a new general business tax for cannabis businesses operating in the unincorporated areas of the County. Cannabis businesses subject to the proposed tax include retail, cultivation, manufacturing, testing labs, distribution, microbusinesses and other commercial cannabis activities.

Your Board must determine whether to adopt the resolution (Attachment A) calling and giving notice of an election, on November 8, 2022, regarding the measure to impose a general business tax on cannabis located within the unincorporated areas of the County. The ballot question to be presented to the voters is stated in the resolution and the proposed ordinance (Attachment B) which specifies tax rates, application, methodology, and enforcement. The resolution calling for the election requires approval by a two-thirds (4 of the 5 Supervisors) vote of the Board to place the measure and ordinance on the

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[1] https://file.lacounty.gov/SDSInter/bos/bc/1039228_2017-06-19CannabisReceiveandFileReportSIGNEDforBOS.pdf
[2] http://file.lacounty.gov/SDSInter/bos/supdocs/160074.pdf
[3] http://file.lacounty.gov/SDSInter/bos/supdocs/166358.pdf
[4] http://file.lacounty.gov/SDSInter/bos/supdocs/166488.pdf

ballot.[5] A simple majority of County voters voting in the election (50% +1) must approve the measure in order to gain approval and impose the tax.[6]

If this general business tax is approved by a majority of the voters, all revenue generated from the tax will be deposited by the Treasurer and Tax Collector into the County General Fund. The projected annual revenue for this tax is $10,360,000 as outlined in the Fiscal Revenue Analysis of the Commercial Cannabis Industry (Attachment C).

Implementation of Strategic Plan goals

Approval of the recommended actions is consistent with County Strategic Plan Goal Objective III.3.1 Maximize Revenue, implement a process to systematically leverage resources to help fund County initiatives. In fiscal year 2020-21 California State collected about $817 million in adult-use cannabis tax revenue which has been used on drug research, treatment, and enforcement, health and safety grants addressing cannabis, youth programs, and preventing environmental damage resulting from illegal cannabis production. The revenues produced by this general tax will be directed to the County's General Fund and may be utilized on a broad array of programs and initiatives to further support economic and workforce development in the County.

Additionally, the regulation and taxation of cannabis businesses to promote a legal cannabis market aligns with County Strategic Plan Goals in the areas of Strategy II.1 Drive Economic and Workforce Development in the County and Objective II.1.1 Support 21st Century Innovative and Socially Responsible Industries in Los Angeles County. According to the attached fiscal report, many cities and counties see economic inputs from this industry in the range of $200 million or more annually, while attracting many small independently-owned businesses. Further reinvestment of the general fund revenue could be made in DCBA OCM's Equity Programs for eligible applicants, which can help the County's Strategic Plan Goals to promote broad workforce development, job training, and economic growth in LA County.

FISCAL IMPACT/ FINANCING

The County is preparing a cannabis business permit ordinance to regulate cannabis business in the unincorporated areas. Initially, the County is planning to permit up to 25 storefront retail cannabis businesses, 25 delivery retail, 10 indoor/mixed light cultivation, 10 manufacturing, 10 distribution, and 10 testing laboratories.

If the initial cannabis tax of 4% of gross receipts for retail, 3% for manufacturing, 3% for distribution and $4 per square foot (sf) of canopy for mixed light cultivation and $7/sf for indoor cultivation is approved, the total projected revenue from the initial number of permits is $10,360,000. This increase in general fund monies may be used to support

[5] Government Code Section 53724(b).
[6] Government Code Section 53723.

cannabis program priorities, which can be critical in the early phases of program implementation and expansion to build equitable resources for applicants, programmatic infrastructure, data and impact analysis, consumer protections, and outreach and education. The proposed Cannabis Business Tax Ordinance grants authority for your Board to set tax rates below or equal to the maximum provided by the measure after July 1, 2026.

If the Board elects to increase the number of these cannabis business permits issued in subsequent years, and the regulated market becomes more established, the general business tax revenue deposited in the general fund may increase.

FACTS AND PROVISIONS/ LEGAL REQUIREMENTS

On November 8, 2016, the voters of the State of California approved Proposition 64, an initiative also known as the Adult Use of Marijuana Act (AUMA). AUMA legalized the personal possession of an ounce or less of cannabis and/or up to eight grams of concentrated cannabis. Retail sales of nonmedical cannabis was also legalized pursuant to a state license. Pursuant to AUMA, municipal governments may regulate the permitting and taxation of commercial cannabis business.

The enclosed Fiscal Revenue Analysis (Attachment C) sets forth the initial recommended rates and revenue projections for the proposed cannabis tax. This document includes key economic impact analysis and justifications for the recommended tax rates.

Pursuant to this analysis, OCM recommends initially setting competitive tax rates that can help regulated cannabis businesses better shift consumer demand from the unregulated market. The initial rates, which would be effective from July 1, 2023, through July 1, 2026, if approved by a majority of County voters, are as follows:

Retail: 4% of gross receipts
Manufacturing: 3% of gross receipts
Distribution: 3% of gross receipts
Testing: 1% of gross receipts
Cultivation: \$7/sf of canopy (indoor artificial light)
\$4/sf of canopy (mixed light)
\$4/sf of canopy (outdoor)[7]
\$2/sf of canopy space (nursery)
Any other type of Cannabis Business: 4% of gross receipts

In addition, OCM recognizes the fast-changing nature of the cannabis regulatory and industry landscape, and the need for County to adjust the tax rates to respond to a

[7] LA County will not be permitting outdoor cultivation during its initial launch of cannabis business permits per its December 2021 report. However, should your Board move to permit outdoor cultivation at a later time, the appropriate rates will apply.

maturing, competitive and viable legal cannabis market in Los Angeles County. Accordingly, the proposed measure, if approved by a majority of County voters, authorizes the Board to impose tax rates equal to or below the following maximum tax rates on cannabis businesses in the unincorporated areas of Los Angeles County after July 1, 2026:

Retail: 6% of gross receipts
Manufacturing: 4% of gross receipts
Distribution: 3% of gross receipts
Testing: 2% of gross receipts
Cultivation[8]: $10/sf of canopy (indoor artificial light)
$7/sf of canopy (mixed light)
$4/sf of canopy (outdoor)
$2/sf of canopy space (nursery)
Any other type of Cannabis Business: 4% of gross receipts

DCBA's OCM is working with all appropriate County departments, external stakeholders, and community members to develop the County's cannabis business permitting program and will return to the Board with an additional ordinance to implement an equitable cannabis business permitting program.

ENVIRONMENTAL DOCUMENTATION

The proposed actions are not a project pursuant to the California Environmental Quality Act (CEQA) because they are activities that are excluded from the definition of a project by Section 15378 (b) of the State CEQA Guidelines. The proposed actions would create a government funding mechanism that does not involve any commitment to a specific project, which may result in a potentially significant physical impact on the environment.

IMPACT ON CURRENT SERVICES (OR PROJECTS)

There would be no negative impacts on current services.

Respectfully submitted,

Rafael Carbajal
Director

RC:JA
HS:FGN

[8] Tax rates on cultivation will be annually indexed to inflation starting in 2026.

Enclosures

c:

Executive Office, Board of Supervisors
Agricultural Commissioner/ Weights & Measures
Chief Executive Officer
County Counsel
District Attorney
Fire
Public Works
Public Health
Regional Planning
Sheriff
Treasurer and Tax Collector
Workforce Development Aging and Community Services

ATTACHMENT A

CANNABIS BUSINESS TAX RESOLUTION

(PENDING)

ATTACHMENT B

CANNABIS BUSINESS TAX ORDINANCE

(PENDING)

ATTACHMENT C

FISCAL REVENUE ANALYSIS OF THE COMMERICAL CANNABIS INDUSTRY

(SEE NEXT PAGE)

Delivering Revenue, Insight
and Efficiency to Local Government

Fiscal Revenue Analysis of the Commercial Cannabis Industry

Prepared for the

County of Los Angeles

June 8, 2022

Table of Contents

I. Introduction

The County of Los Angeles[1] currently prohibits any and all commercial cannabis business activities within the unincorporated area. In response to the passage of Proposition 64 in 2016, the Los Angeles County Board of Supervisors established the Office of Cannabis Management (OCM) within the Department of Consumer and Business Affairs. The OCM convened a working group on cannabis regulation to develop recommendations for cannabis regulation in unincorporated Los Angeles County. The Working Group conducted extensive community outreach and held eight public convenings to deliberate on the various components of cannabis legalization.

In June of 2018, the Working Group presented the Board of Supervisors with a set of 64 recommendations that included removing the ban on commercial cannabis businesses and moving forward with a process to legalize and regulate cannabis in the unincorporated areas. After discussion, the Board chose to receive and file the report, but took no action.

In July of 2021, the Board of Supervisors revisited its previous discussion and voted unanimously to direct the Office of Cannabis Management and other relevant county departments to review the 2018 report and bring back updated recommendations for cannabis retail, manufacturing, distribution, growth, testing, regulation, and enforcement in the County of Los Angeles, with a timeframe of 120 days. The Board's direction stated that the updated recommendations should be rooted in an equity framework and should review best practices to take into account lessons learned from other jurisdictions that have already legalized commercial cannabis.

Pursuant to that direction, the County is now considering a cannabis regulatory framework that would allow for 25 storefront retailers, 25 non-storefront (delivery-only) retailers, 10 cultivators, 10 manufacturers and 10 distributors in the unincorporated areas. The County is very concerned with social equity issues and wants to consider ways that its program can benefit small, locally owned businesses that may have a difficult time competing with large, well-financed chains. The County is hoping to develop a program that includes incentives, permit assistance, reduced fees or other tools to reduce barriers to entry for first-time business owners in the cannabis sector.

To assist with this, the County engaged the services of HdL Companies to conduct an economic impact analysis of the potential cannabis industry in unincorporated Los Angeles County. The County is interested in general economic development considerations that may help to guide and inform the Board's decision-making and direction, rather than focusing solely on the potential tax revenues that may be generated. The County is hopeful that this analysis will help inform development of a cannabis tax ordinance and ballot measure to be placed before the voters in November.

The County is mindful of setting realistic expectations about revenues in the initial years as businesses seek to get established and recognizes that tax rates and fee structures must not be prohibitive or

[1] This report at times refers alternately to the unincorporated area, the entire county as a whole, or the governmental entity of the County of Los Angeles. To minimize the inherent confusion, we have herein referred to both the governmental entity and the unincorporated area under its jurisdiction as "the County of Los Angeles" or "the County". When speaking of the geographic county as a whole, we have referred to it as "Los Angeles County". We have also tried to include additional context or clarification on a case-by-case basis.

otherwise serve as a disincentive to business development. The County desires to balance potential revenues with the larger goal of promoting and sustaining a viable legal market, both to provide jobs and business opportunities and to counter the continuing black market. While the County is interested in generating revenue, this interest is viewed as more of a long-term goal that is dependent upon overall business success.

HdL has prepared this economic impact analysis of the potential cannabis industry in unincorporated Los Angeles County to help inform development of a cannabis tax ordinance and associated ballot measure. The analysis considers the County's current target of 25 storefront retailers, 25 non-storefront (delivery-only) retailers, 10 cultivators, 10 manufacturers and 10 distributors, and provides estimates for the total number of each type of commercial cannabis business that may be viable in the unincorporated area based upon market conditions and general economic factors. The analysis also provides estimates for the gross receipts and tax revenue that may be generated from each type of business under a variety of tax structures and rates.

This economic impact analysis includes research regarding the number, type and size of cannabis businesses in the Los Angeles County region. The analysis also discusses cannabis tax rates and structures in nearby jurisdictions and provides benchmarks for cumulative tax rates that reflect emerging norms around the state, as well as best practices for ensuring a healthy and competitive industry. The analysis also includes a discussion of the potential fiscal impacts to the County from staffing needs and other costs associated with the permitting, regulatory monitoring and enforcement of licensed cannabis businesses.

Legalization and regulation of commercial cannabis has exposed this industry to competitive free-market forces from which it was previously shielded due to prohibition. Licensing, permitting, and regulatory costs, combined with State and local taxes, have added significantly to the operational costs of commercial cannabis businesses. The net effect of these forces is that wholesale prices have dropped significantly at the same time that regulatory costs are climbing. High tax rates may have been acceptable to the industry when it enjoyed high profit margins and few regulatory costs, but those same rates become prohibitive for what is now one of the most highly regulated, and most competitive, industries in the State.

Discussion of regulating and taxing the cannabis industry can too often overshadow the larger jobs and economic development issues that typically accompany efforts to attract new industry. Word that a new business or industry is looking to bring hundreds of new jobs to a community is more commonly met with open arms and offers of tax incentives. The cannabis industry is perhaps completely unique in that the inherent jobs and economic development benefits are welcomed more grudgingly and met with the disincentive of special taxes. While the tax revenue potential is attractive to local governments, imposing excessively high rates may reduce the number of businesses that step forward and decrease the likelihood that they will succeed in the regulated market.

Equally important to tax rates is setting clear direction for regulatory policy, which will be subject to a separate development process including review under the California Environmental Quality Act (CEQA). As with any other industry, the cannabis industry desires regulatory certainty. Clear regulations and competitive tax rates will be essential for attracting or holding on to this industry sector, and for helping these businesses to outcompete the persistent illicit market.

Summary and Recommendations

1. The County's best opportunity for developing tax revenue would come from cannabis retailers (both storefront and delivery-only), as there is both the greatest unmet consumer demand and the greatest return in terms of revenue.
2. The County should set its tax rates for cannabis retailers to be competitive with the average of the cities in the region as shown in Figure 5 on page 9. Local rates run from 2.5% up to 10% of gross receipts, with a most common range of 5.0% to 8.0%. HdL generally recommends a range of 4.0% to no more than 6.0%.
3. Some of the more remote, rural parts of the County's unincorporated areas could be attractive for outdoor or mixed-light cultivation. Should the County choose to allow these cultivation types, HdL recommends that the rates for these two activities be kept low to leverage this advantage. These low tax rates should be joined with clear zoning requirements to locate these cultivation types in remote areas, while keeping them away from populated areas. The determination of which types of cultivation activities may or may not be permitted is up to the County's discretion and would be subject to zoning and other requirements to be determined through environmental review.
4. There is a great interest in social equity issues to address the historic harms from the war on drugs, both on the part of the County and on the part of potential cannabis business applicants. Cannabis businesses qualifying for a social equity program would have to be taxed at the same rates as other similar cannabis businesses conducting the same activities.

   Courts have interpreted the equal protection clause of the 14th Amendment as applying to local ordinances including taxes[2]. As with other kinds of taxes, cannabis taxes must be levied and collected equally so as to not advantage one person or business over another conducting the same activities under the same conditions. While taxes and tax rates may distinguish between classifications on a rational basis, this generally applies to differences of business type, size, earnings, number of employees, activities being conducted, transaction methods, or other quantifiable differences. We are unaware of situations where tax rates have been applied unequally based upon the qualifications of the individual owners.

   However, the County could establish a tax rebate program for qualifying social equity businesses (the businesses must first have paid their taxes before qualifying for any rebates). The County could also use cannabis tax revenues to cover permitting costs, provide loans, or offer other kinds of business assistance to help social equity applicants. Any of these actions would have to be separate from and subsequent to placing the tax measure on the ballot.

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[2] In Ladd v. State Board of Education the Court held that "*A tax statute or ordinance which distinguishes between parties does not violate the equal protection or due process clause if the distinction rests on a rational basis*" (31 Cal. App. 3d 35, 106 Cal. Rptr. 885 (1973)). Similarly, in Gowens v. City of Bakersfield[2] the Court held that "*If no reasonably justifiable subclassification is or can be made, then the operation of the tax must be such as to place liability therefor equally on all members of the class*" (Gowens v. City of Bakersfield, 179 Cal. App. 2d 282, 285-286 (1960)).

5. The County should not anticipate any cannabis testing laboratories in the unincorporated area, as the region is already well served by 14 laboratories in the cities of Los Angeles, Long Beach, Monrovia and Pasadena.

6. HdL recommends the tax rates for all cannabis business activities be set within the ranges below. We have provided the rates for the City of Los Angeles for reference. For comparison, the square-footage rates shown for cultivation are roughly equivalent to a range of 1.67% to 2.50% of gross receipts. We believe that the County should set its rates to be competitive with other jurisdictions in the County region as shown in Figure 5 on page 9 and to keep the cumulative tax rate at or below 30% (see Appendix B; *State Tax Considerations*).

Figure 1:

Cannabis Business Type	HdL Initial Rate	HdL Maximum Rate	City of Los Angeles
Cultivation (indoors)	$7.00/sf	$10.00/sf	2.0%
Cultivation (mixed-light)	$4.00/sf	$7.00/sf	2.0%
Nurseries	$1.00/sf	$2.00/sf	2.0%
Manufacturing	2.5%	4.0%	2.0%
Distribution	2.0%	3.0%	1.0%
Retail	4.0%	6.0%	5.0% - 10%
Testing	1.0%	2.5%	1.0%

7. Based upon our analysis, we project that licensed cannabis businesses in the unincorporated area of the County could generate between $10 million and $15 million in annual cannabis tax revenue. Our projections below assume the proposed 50 retailers (25 storefront and 25 non-storefront delivery) are located appropriately to serve the majority of the population in the unincorporated area while also capturing some portion of sales from those incorporated cities that disallow cannabis retailers (See discussion in Section IV; *Cannabis Retailers*). Projections for cultivation assume 5 mixed-light cultivators and 5 indoor cultivators as described in Section VII, *Cannabis Cultivation*.

Figure 2:

Business Type	Number	Low Rate	Revenue	Med. Rate	Revenue	High Rate	Revenue
Retailers	50	4.0%	$7,800,000	5.0%	$9,700,000	6.0%	$11,700,0000
Manufacturer	10	2.5%	$625,000	3.0%	$750,000	4.0%	$1,000,000
Distributor	10	2.0%	$400,000	2.5%	$500,000	3.0%	$600,000
Cultivation	10	$4/sf - $7/sf	$1,210,000	$5.50/sf - $8.50/sf	$1,540,000	$7/sf - $10/sf	$1,870,000
Testing	0	1.0%	$0	1.5%	$0	2.0%	$0
Total			**$10,035,000**		**$12,490,000**		**$15,170,000**

II. The Cannabis Industry in the Los Angeles County Region

Los Angeles County is the most populous county in the United States, with an overall population of over 10 million people as of the 2020 census. The County contains 88 incorporated cities with a combined population of roughly 8,918,400 people, leaving around 1,095,600 residents in the unincorporated areas. Roughly 3.9 million people live in the City of Los Angeles, making it the second-largest City in the United States after only New York City. More than 65 percent of the County is in the 2,635 square mile unincorporated area, including 125 unincorporated communities.

The amount of revenue that a city or county may be able to generate from a cannabis business tax depends upon the type, number and size of cannabis businesses that may choose to locate there. Cannabis retailers, cultivators, manufacturers, distributors and testing facilities are each interdependent upon a network of other cannabis businesses, so understanding the extent of the existing industry in the region provides some basis for estimating the number of businesses which may seek to locate in the unincorporated areas of Los Angeles County.

We generally assume that wholesale cannabis businesses such as cultivators, manufacturers and distributors would primarily interact or do business with other cannabis businesses within a one-hour radius. Being the most populous county in the United States, Los Angeles County is large enough that it can sustain a self-sufficient industry that does not depend upon supporting businesses from neighboring counties or from elsewhere in the state.

In addition, Los Angeles County merges into Orange County to the South, with a population of 3.17 million, and Riverside and San Bernardino Counties to the East, with populations of 2.4 million and 2.16 million people, respectively. Combined, the 4 counties form a massive metropolitan region of nearly 18 million people. The combined regional population is greater than the population of the Netherlands, Greece, Portugal, Sweden, the Czech Republic, Ireland, Norway, Hong Kong, Singapore or 167 other countries.

Los Angeles County is home to over a quarter of California's population and, thus, over a quarter of the state's consumers. By extension, it can be assumed that Los Angles County is also home to over a quarter of the state's cannabis consumers. In addition, Los Angeles County is less than 2 hours from Santa Barbara County, which is home to the highest concentration of cannabis cultivation licenses in the state. The close proximity between the area of greatest supply and the area of greatest demand provides makes Los Angeles County a prime location for all other cannabis business types, as well as for other non-cannabis businesses that provide ancillary services to support the cannabis industry.

In conducting an analysis of the cannabis industry for a client city or county, we typically will look at the broader region within which that city or county is located to include businesses in other nearby communities. In the case of Los Angeles County, however, the size of the population and the number of businesses is clearly large enough to be self-sufficient. Though cannabis wholesale and retail businesses within the County undoubtedly buy product from suppliers elsewhere in the state, and sell their wholesale products elsewhere as well, we do not have to look beyond the County's borders to come up with an adequate industry cluster for purposes of our analysis.

Of the 88 incorporated cities and other agencies within Los Angeles County, the Department of Cannabis Control (DCC) lists 20 as currently having licensed cannabis businesses. These numbers are shown in Figure 3 on the next page.

Figure 3:

Active Cannabis Licenses in the Los Angeles County Region as of February 1, 2022								
City	Cultivation	Nursery	Distributor	Manufacturer	Retailer	Microbusiness	Testing Laboratory	Total
Avalon	0	0	0	0	1	0	0	1
Baldwin Park	4	0	1	6	0	0	0	11
Bell Flower	1	0	3	3	4	0	0	11
Commerce	1	0	6	0	5	3	0	15
Cudahy	3	0	1	2	0	1	0	7
Culver City	0	0	4	1	7	1	0	13
El Monte	0	0	1	2	2	0	0	5
Huntington Park	1	0	1	1	1	1	0	5
Lancaster	9	0	3	4	0	0	0	16
Long Beach	19	3	55	58	29	5	5	174
Los Angeles	249	17	247	199	207	77	1	997
Lynwood	1	2	8	6	7	0	0	24
Malibu	0	0	0	0	2	0	0	2
Maywood	1	0	3	4	4	3	0	15
Monrovia	0	0	0	0	0	0	2	2
Montebello	3	0	5	4	7	3	0	22
Pasadena	0	0	0	0	2	0	1	3
Pomona	0	0	0	0	2	0	0	2
Santa Monica	0	0	0	1	0	0	0	1
West Hollywood	0	0	1	1	10	0	0	12
Total	**292**	**22**	**339**	**292**	**290**	**94**	**9**	**1,338**
The number of licenses may not denote the number of businesses, as individual businesses may hold multiple licenses. The number of State licenses shown here also may not reflect the number of licenses or permits issued by local agencies.								

In addition to those cities listed, we are aware that numerous other cities within the County are currently in various stages of exporing, developing or permitting cannabis businesses, including Artesia, Carson, Claremont, El Segundo, Hawthorne, Pico Rivera, Redondo Beach, Signal Hill, South El Monte and others.

The total economic input provided by the cannabis industry in Los Angeles County should be viewed as more important than the tax revenues that can be generated from it. We estimate that the 1,338 cannabis businesses (See Figure 2) in Los Angeles County as a whole likely provide around 17,000 jobs[3], most of which typically pay above-average wages compared with similar jobs in other industries[i]. We estimate total payroll to be over $500 million. In addition, cannabis cultivators and manufacturers can be assumed to sell some portion of their product outside of the County, thus bringing revenue into the County from elsewhere.

This concentration of cannabis businesses shows that the Los Angeles County region already has a strong presence within California's commercial cannabis industry, with a large and diverse industry cluster that can both support and provide competition for additional cannabis businesses. We anticipate that the number of cannabis businesses in the region will continue to increase over time, particularly in the retail sector.

[3] Assumes an average of 24 employees for each retailer, 12 for each cultivator and a conservative estimate of 7 for all other business types. Further discussion is provided in Section IV; Jobs, *Wages and General Economic Impacts*.

III. Common Cannabis Tax Rates

Cannabis tax rates have been settling and stabilizing around the State since the beginning of 2018. Many cities instituted cannabis taxes prior to the implementation of statewide regulations, with a wide range of tax structures and rates as high as $30 per square foot (for cultivation) or 18% of gross receipts. Some of these "early adopter" cities have since reduced their rates to be more competitive with common rates that are now emerging around the State.

The State of California applies two separate taxes to cannabis: a cultivation tax of $10.08 per ounce of dried flower ($3.00 per ounce of dried leaf or trim) and an excise tax of 15% on the purchase of cannabis and cannabis products. These two separate State taxes can add up to 26% to consumer cannabis prices, even before any local taxes are contemplated. This leaves very little room for local jurisdictions to work within if they wish to remain under the total cumulative tax rate of 30%. This is an important benchmark to allow the local industry to compete against the illicit market and against other regulated cannabis businesses from around the State (see Attachment B; *State Tax Considerations*).

Governor Newsome's May Budget Revise proposes significant changes to the way the state's cannabis taxes are applied[ii]. Under the proposal, the cultivation tax rate would be reduced to zero percent, effectively eliminating the tax. The cannabis excise tax would remain at 15%, but the point of collection would be shifted to retail sales, rather than distributors, thereby simplifying the tax structure. The proposal includes an allowance to increase the rate of the excise tax through FY 2024/25 if necessary to maintain minimum levels of funding for certain programs for youth education, intervention and treatment, environmental restoration, and state and local law enforcement programs. If approved, the changes to the cultivation tax rate would be effective July 1. The changes to the method of collection would become effective January 1, 2023.

Figure 4, below, shows the cannabis tax rates or development agreement fees from those cities in Los Angeles County that allow licensed cannabis businesses a number of nearby jurisdictions, as well as the standard tax rates that HdL commonly recommends to those local agencies that we work with. The rates and structures vary greatly among these cities, though the cities of El Monte, Los Angeles and Pasadena are all generally in line with our commonly recommended rates. HdL's recommended initial range of tax rates for cannabis businesses other than cultivation commonly runs from 2% of gross receipts for distributors, to 2.5% for manufacturers and 4% for retailers. These rates may be adjusted up to a maximum of 3%, 4% and 6%, respectively.

We note that a large number of these cities use development agreements as a means for generating revenue to provide agreed-upon community benefits. In some cases the fees are standardized for all cannabis businesses, but in other cases the fees are negotiated separately on a case by case basis. In many such cases, we were only able to find fees for those business types which currently have agreements with the host city. Where a business type is not allowed, where there is no tax or fee, or where we were unable to find any information, we have entered "N/A" for either "Not Allowed", "Not Applicable" or "Not Available".

Figure 4:

Cannabis Taxes in the Los Angeles County Region								
City	Tax or DA[1]	Cultivation	Nursery	Distributor	Manufacturer	Retailer	Microbusiness	Testing Laboratory
Avalon	None	N/A	N/A	N/A	N/A	None	N/A	N/A
Baldwin Park	DA[2]	N/A	$250K - $350K	$250K - $350K	$250K - $350K	N/A	$250K - $350K	$250K - $350K
Bell Flower	Tax	$20/sf	$5/sf	1.0%	2.0%	8.5%	N/A	N/A
Commerce	DA	12.0% - 14.0%	12.0% - 14.0%	2.0% - 6.0%	4.0% - 6.0%	5.0% - 8.0%	By Activity	1.5% - 5.0%
Cudahy	DA	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Culver City	Tax	$12/sf	N/A	6.0%	6.0%	8% - 10%	N/A	1.50%
El Monte	Tax	3.0%	N/A	2.0%	3.0%	5.0%	N/A	2.0%
Huntington Park	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Lancaster	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Long Beach	Tax	$13.41/sf	$13.41/sf	1.0%	1.0%	6.0% - 8.0%	By Activity	1.0%
Los Angeles	Tax	2.0%	2.0%	1.0%	2.0%	5.0% - 10.0%	2.0%	1.0%
Lynwood	DA	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Malibu	Tax	N/A	N/A	N/A	N/A	2.5%	N/A	N/A
Maywood	Tax	6.0%	6.0%	6.0%	6.0%	10.0%	10.0%	6.0%
Monrovia	None	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Montebello	DA	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Pasadena	Tax	$2/sf - $7/sf	$1/sf	2.0%	2.5%	4.0%	4.0%	1.0%
Pomona	Tax	N/A	N/A	3.0%	4.0%	6.0%	6.0%	2.5%
Santa Monica	None	N/A	N/A	N/A	N/A	N/A	N/A	N/A
West Hollywood	Tax	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%
HdL Recommended (Max)	Tax	$7/sf - $10/sf	$2/sf	3.0%	4.0%	6.0%	By Activity	2.0%

N/A indicates Not Applicable where there is no tax, Not Allowed where the activity is prohibted, or Not Available where we were unable to find information.

[1] Development Agreement; also includes community benefits agreements.

[2] HdL is currently working with the City of Baldwin Park to revise their community benefit fee structure.

The development and implementation of a cannabis regulatory program also carries costs for the host jurisdiction. These costs may include staff and consultant time for the development of ordinances, initial permitting for businesses, compliance monitoring, annual permit renewals and regulatory enforcement as necessary. These costs vary depending on the desired level of regulatory oversight, the use of consultants, involvement of law enforcement officers and other considerations.

Annual permit fees commonly range between $6,000 and $30,000, with an average around $16,000. The County's actual costs would all be fully recoverable from the businesses through initial and annual permit fees, leaving all revenues generated by a cannabis tax available for discretionary spending through the General Fund. These permitting fees are discussed in Appendix E; *Fiscal Impacts and Fees*.

IV. Jobs, Wages and General Economic Impacts

Discussion of regulating and taxing the cannabis industry can too often overshadow the larger jobs and economic development issues that typically accompany efforts to attract new industry. Word that a new business or industry is looking to bring hundreds of new jobs to a community is more commonly met with open arms and offers of tax incentives. The cannabis industry is perhaps completely unique in that the inherent jobs and economic development benefits are welcomed more grudgingly and met with the disincentive of special taxes.

As with any other industry, the cannabis industry does not exist in a vacuum. Those businesses that actually grow, process, manufacture, distribute and sell cannabis products support a wide variety of other businesses that may never touch the actual product itself. Cultivators support garden supply stores, green house manufacturers, irrigation suppliers, soil manufacturers, and a wide variety of contractors including building and construction, lighting and electrical, HVAC, permitting, and engineering. Manufacturers support many of these same businesses, plus specialized tooling and equipment manufacturers, and product suppliers for hardware, packaging, and labeling. All of these businesses support, and are supported by, a host of ancillary businesses such as bookkeepers, accountants, tax preparers, parcel services, marketing and advertising agencies, personnel services, attorneys, mechanics, facilities maintenance, security services, and others.

In Figure 5 of this report (page 17), we show that there are 384 licensed cannabis retailers in all of Los Angeles County[4], generating over $1.5 billion in retail sales annually. Analysis of cannabis retailers and retail applicants in other cities shows a range of anywhere from 5 employees to over 60 per retailer, with a projected average of 13 for new retailers and 24 for established businesses[5]. Our analysis also shows that cannabis retailers commonly pay slightly higher than average wages compared with other types of retail sales[6], and often provide employee benefits that are not always common for retail workers.

The County intends to permit up to 50 cannabis retailers (25 storefront and 25 non-storefront delivery) in the unincorporated area. Based on these figures, we anticipate that over time these businesses may create up to 1,200 full-time-equivalent retail jobs, paying up to $48 million in annual wages.

The number of employees for a cannabis cultivation facility varies in proportion to the size and type of operation. Data collected by Marijuana Business Daily[iii] shows that cultivation facilities commonly employ from 3 to 20 full-time employees and 2 to 11 part time employees, with a median of 7 full-time and 5 part-time employees. Employees working in cannabis cultivation are not considered agricultural workers[iv], and so are subject to the requirements of a 40-hour work week, including overtime and regular breaks.

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[4] This figure assumes that all 94 microbusinesses conduct retail sales as part of their licensed activities.

[5] This aggregate data comes from review and analysis of confidential information presented in cannabis business applications from a number of cities HdL has worked with.

[6] The Bureau of Labor Statistics shows retail sales workers in California earn a mean hourly wage of $17.46 (https://www.bls.gov/oes/current/oes_ca.htm#41-0000). HdL's analysis of numerous cannabis retail applications shows wages commonly in the range of $18-$20 per hour, with some as high as $24-$26 per hour. We note that this is a general observation only, and not an ex=stablished industry average. We also note that higher-than-average wages and benefits are often a condition of a competitive application process for cannabis retailers.

Cannabis cultivators are increasingly seeking to hire cultivation managers with degrees in botany, horticulture or related fields. These specialized employees can demand professional salaries that are much higher than other cultivation workers. Other full-time workers in the cannabis industry typically enjoy wages that are above that of other, similar occupations, though part-time seasonal workers such as trimmers make a much lower wage.

In Figure 5, below, we have shown a general array of positions, wages and salaries for a hypothetical 22,000 square foot greenhouse operation. These figures are based on data from Marijuana Business Daily's Marijuana Factbook 2018 but are adjusted to reflect relative wages in Los Angeles County[v]. Based upon this, we estimate that an array of 10 cultivation facilities in the unincorporated County may create approximately 40 full-time and 20 part-time jobs, with total payroll of around $2.94 million per year.

Figure 5

Estimated Employees per 22,000 Square-Foot Greenhouse					
Position	**#**	**Rate**	**Hours**	**Salary**	**Combined**
MGR	1	$60	2,000	$120,000	$120,000
FT	3	$24	2,000	$48,000	$144,000
PT	2	$15	1,000	$15,000	$30,000
Total					**$294,000**

The economic benefits are not limited to those in the cannabis industry, itself. Cultivators and manufacturers bring new money into the community by selling their products into a statewide market. Their profits and the salaries they pay move into the general local economy, supporting stores, restaurants, car dealerships, contractors, home sales and other businesses. Research done by HdL for other clients suggests that many cities and counties see economic inputs from this industry in the range of $200 million dollars or more annually.

Because of the emerging nature of this industry, it still attracts many small, independently-owned businesses. Numerous studies have demonstrated that locally-owned, independent businesses recirculate a far higher percentage of every dollar back into the local community than large, corporately-owned businesses do. The same economic development arguments that are used to support other independent, locally-owned businesses apply to this industry, too. Host cities or counties should expect to see typical economic benefits from these new (or newly daylighted) businesses on par with other new businesses, separate from any tax revenue that may be generated.

A number of cities and counties have looked upon the emergence of the legal cannabis industry as an opportunity to address the historic harms from the war on drugs through development of Social Equity Programs (SEP's). These programs are designed to support equal opportunity in the cannabis industry by making legal cannabis business ownership and employment opportunities more accessible to low-income individuals and communities most impacted by the criminalization of cannabis. SEP's commonly look to assist cannabis business applicants from communities that may have been disadvantaged due to the past illegal nature of the industry within which they are now trying to compete. Such communities may have experienced higher incarceration rates, or may lack financial capacity, regulatory experience and business acumen from disproportionate application of the law towards what is now a fully-legal industry.

Cannabis businesses qualifying for a social equity program would have to be taxed at the same rates as other similar cannabis businesses conducting the same activities. Courts have interpreted the equal protection clause of the 14th Amendment as applying to local ordinances including taxes[7]. As with other kinds of taxes, cannabis taxes must be levied and collected equally so as to not advantage one person or business over another conducting the same activities under the same conditions. While taxes and tax rates may distinguish between classifications on a rational basis, this generally applies to differences of business type, size, earnings, number of employees, activities being conducted, transaction methods, or other quantifiable differences. We are unaware of situations where tax rates have been applied unequally based upon the qualifications of the individual owners.

However, the County could establish a tax rebate program for qualifying social equity businesses, or for businesses that meet certain requirements for socially-equitable business practices. The businesses must first have paid their taxes before qualifying for any rebates. The County could also use cannabis tax revenues to cover permitting costs, provide loans, or offer other kinds of business assistance to help social equity applicants. Any of these actions would have to be separate from and subsequent to placing the tax measure on the ballot.

The City of Oakland has developed a tax rebate program for Social Equity businesses that includes rebates in 4 separate categories for local hiring, utilizing other equity businesses in the supply chain, workforce quality of life (wages and benefits) and providing incubation space for other equity businesses. There are a total of 9 subcategories, each offering rebates of 0.25% up to 1.50% off the effective tax rate for the business. These rebates can be cumulative, provide that no cannabis business will pay less than a minimum tax rate of 2.5%. A business will have to have been operating and paying its taxes for a minimum period of 182 days (6 months) to be eligible for any rebates.

We have provided further information about the City of Oakland's rebate program to County staff.

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[7] In Ladd v. State Board of Education the Court held that "*A tax statute or ordinance which distinguishes between parties does not violate the equal protection or due process clause if the distinction rests on a rational basis*" (31 Cal. App. 3d 35, 106 Cal. Rptr. 885 (1973)). Similarly, in Gowens v. City of Bakersfield[7] the Court held that "*If no reasonably justifiable subclassification is or can be made, then the operation of the tax must be such as to place liability therefor equally on all members of the class*" (Gowens v. City of Bakersfield, 179 Cal. App. 2d 282, 285-286 (1960)).

V. Cannabis Retailers

Retailers are the only cannabis business type that specifically serves the local community, rather than feeding into the statewide market, and so the number of retailers can be assumed to be somewhat proportional to the local population. Demand is assumed to generally be a constant regardless of its legal status or the availability of retailers, so it's reasonable to expect that more retailers would mean fewer customers for each and, thus, lower gross receipts.

Cannabis retailers address a local market demand which is generally assumed to exist within a given community regardless of whether there is any legal access. Consumer demand for cannabis has existed for many, many decades prior to legalization and evidence suggests that the percentage of the population that uses cannabis on a regular basis is no greater now than it was in the 1970's[vi]. Given this, it is reasonable to assume that allowing licensed cannabis retailers in a community does not increase demand or create new cannabis consumers. Rather, it facilitates a shift in cannabis purchases happening through legal, regulated means rather than through the illicit market.

Eventually, though, any local cannabis market will reach saturation, at which point new licensed retailers will simply cannibalize sales from existing retailers. Essentially, both licensed and unlicensed cannabis retailers all divide the same finite pie.

Under California's regulatory program, consumers have little incentive to purchase cannabis in the medical segment rather than buying in the adult use segment. Both medical and adult use cannabis will pay the State cultivation tax and excise tax, with the only advantage being an exemption from regular sales tax for qualifying patients with a State-issued Medical Marijuana Identification Card (MMIC). Eligibility for this limited sales tax exemption costs consumers approximately $100 per year, plus time and inconvenience, for a savings of 9.50% in unincorporated Los Angeles County. It's anticipated that this provides little or no price advantage for the majority of cannabis consumers.

Currently there are only 3,080 MMIC cardholders in all of California[vii], which is less than half the number of cards as in 2019. The low number of such cards makes their impact inconsequential for purposes of our revenue analysis.

The Bureau of Cannabis Control (now the Department of Cannabis Control) had projected that more than half of the adult use purchases previously in the illicit market would transition to the legal market to avoid the inconvenience, stigma and risks of buying unknown product through an unlicensed seller[viii]. Essentially, the easier, cheaper and more reliable it is for consumers to access quality cannabis legally, the less reason they would have to purchase it through the illicit market. That same study projected that 60% of sales in the legal, medical cannabis market would shift to the adult use market, for the reasons noted above. The availability of legal adult use cannabis was also anticipated to produce a small 9.4% increase in consumer demand.

However, this anticipated transition to the legal market was dependent upon the assumption that the majority of cities and counties in California would take steps to permit and regulate licensed cannabis businesses. This has not been the case. Some 70% of California counties and cities continue to prohibit legal access to cannabis. Not surprisingly, 70% of cannabis sales continue to be in the illicit market.

The shift from medical to adult use sales was not expected to change the overall volume of cannabis sales, only the categories into which they fall. Once the legal, adult use market was properly functioning and available throughout the state, it was anticipated to capture about 61.5% of the overall cannabis market in California. The legal medical cannabis market is projected to decline to just 9% of the overall market, though this projection may change due to the increasing popularity of CBD products. The other 29.5% was expected to remain in the illicit market[ix]. The vast majority of retail licenses issued by the Department of Cannabis Control are for retailers who operate both medical and adult use from the same premises.

HdL generally assumes a standard market concentration of one retailer per every 18,000 to 20,000 people. Data from the Department of Cannabis Control shows 1,205 licensed retailers and around 200 retailing microbusinesses[8] around the state, which works out to roughly one retailer for every 28,000 people based on the state's overall population. However, these retailers are not evenly distributed around the state. Some 70% of California cities do not allow legal cannabis sales, so these licensed retailers are concentrated in the 30% of cities that do.

24 of California's 58 counties have licensed cannabis retailers in the unincorporated area. An additional 23 counties do not allow cannabis businesses in the unincorporated area but contain cities that do allow them.

Figure 5, on the next page, shows the distribution of cannabis retailers throughout the state. The table lists all of the counties[9] that currently have licensed cannabis retailers ("served" counties), whether in the unincorporated area or within cities, providing the population for each county and the number of retailers[10]. Dividing the population by the number of retailers gives us the population per retailer for each county.

Data from the California Department of Tax and Fee Administration (CDTFA) gives the total cannabis retail sales for each county as well as the sales per capita, derived by dividing the total sales by the population. From this, we are able to see the relationship between the retail density (population per retailer) and the sales per capita.

The average retail density for all served counties is 1 retailer per 32,148 residents. The average per capita sales for all served counties is $171 per person per year. For counties that have fewer than I retailer per 40,000 residents, the per-capita sales drop to just $84 per year. For those counties with a higher concentration of retailers, the per-capita sales increase consistent with the retail density. For counties with more than 1 retailer for every 40,000 residents, the per-capita sales go up to $207. For counties with greater than 1 retailer per 20,000 residents, the per-capita sales go up again to $226. For counties with greater than 1 retailer per 10,000 residents, the per-capita sales increase even further to $283. HdL generally recommends a retail density of 1 retailer per 20,000 residents for planning purposes.

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[8] Department of Cannabis Control data does not specify what types of business activities are conducted by each microbusiness. HdL analysis indicates approximately 2 out of every 3 cannabis microbusinesses include retail sales.

[9] The table excludes 12 counties that have licensed retailers but have not yet reported a full year of sales.

[10] For purposes of this table, we have assumed that all microbusinesses include a retail component, though we know that a minority of microbusinesses do not. Unfortunately, data from the Department of Cannabis Control does not allow us to accurately determine which cannabis business activities are being conducted by each microbusiness.

Figure 5

Cannabis Retailers, Sales, and Sales per Capita by County					
County; All Agencies	**Population**	**Number of Retailers**	**Population per Retailer**	**Total Retail Sales**	**Sales per Capita**
Alameda	1,656,791	204	8,122	$273,569,272	$165
Calaveras	45,040	4	11,260	$12,423,700	$276
Contra Costa	1,154,158	18	64,120	$120,344,037	$104
El Dorado	195,380	12	16,282	$33,003,661	$169
Humboldt	130,859	41	3,192	$49,077,328	$375
Imperial	186,064	14	13,290	$20,842,841	$112
Kern	915,273	8	114,409	$20,419,736	$22
Lake	63,948	6	10,658	$9,718,775	$152
Los Angeles	10,045,420	384	26,160	$1,554,227,438	$155
Marin	257,879	8	32,235	$14,162,740	$55
Mendocino	86,672	30	2,889	$28,613,877	$330
Merced	284,857	9	31,651	$52,402,374	$184
Mono	13,296	5	2,659	$5,899,438	$444
Monterey	437,347	26	16,821	$77,441,041	$177
Napa	137,689	6	22,948	$11,508,038	$84
Orange	3,154,577	29	108,779	$273,249,465	$87
Riverside	2,454,741	137	17,918	$374,176,140	$152
Sacramento	1,561,232	101	15,458	$304,252,948	$195
San Bernardino	2,177,209	41	53,103	$113,933,330	$52
San Diego	3,316,066	62	53,485	$464,746,668	$140
San Francisco	875,062	74	11,825	$231,270,261	$264
San Joaquin	783,722	8	97,965	$63,426,658	$81
San Luis Obispo	271,190	21	12,914	$55,021,831	$203
San Mateo	765,487	17	45,029	$31,851,931	$42
Santa Barbara	441,224	29	15,215	$72,488,624	$164
Santa Clara	1,934,704	17	113,806	$220,033,935	$114
Santa Cruz	261,131	27	9,672	$62,332,024	$239
Shasta	177,810	12	14,818	$52,694,135	$296
Siskiyou	44,338	8	5,542	$6,371,830	$144
Solano	438,603	23	19,070	$68,154,581	$155
Sonoma	484,238	33	14,674	$106,595,333	$220
Stanislaus	555,985	28	19,857	$161,463,512	$290
Tulare	481,818	10	48,182	$59,822,581	$124
Ventura	835,467	19	43,972	$58,482,685	$70
Yolo	217,531	8	27,191	$35,786,055	$165
Totals:	**36,842,811**	**1,479**		**$5,099,808,823**	
Average Population per Retailer:			**32,148**		
Average Sales per Capita:					
All counties with active cannabis retailers					**$171**
Counties with fewer than 1 retailer per 40,000 residents					**$84**
Counties with more than 1 retailer per 40,000 residents					**$207**
Counties with more than 1 retailer per 20,000 residents					**$226**
Counties with more than 1 retailer per 10,000 residents					**$283**
Note: This data assumes that all microbusinesses include a retail component					

Department of Cannabis Control data shows that there are 384 licensed cannabis retailers (including microbusinesses) within Los Angeles County as a whole, serving a population of just over 10 million people. This works out to one retailer for every 26,160 people, or somewhat lower than the retail density of 1 per 20,000 that we commonly recommend for planning purposes. The sales per capita is $155, which is below the average of $171 for all counties, and well below the average of $207 for counties with more than 1 retailer per 40,000 residents. This suggests that even with a reasonable retail density, cannabis retailers are having difficulty serving their market. The distribution of cannabis retailers in Los Angeles County is shown in Figure 6.

Figure 6:

Cities with Cannabis Retailers			
City	**Population**	**Retailers**	**Population Per Retailer**
Avalon	3,738	1	3,738
Bellflower	77,886	4	19,472
Commerce	13,035	8	1,629
Cudahy	22,811	1	22,811
Culver City	39,528	8	4,941
El Monte	115,356	2	57,678
Huntington Park	59,079	2	29,540
Long Beach	469,893	34	13,820
Los Angeles	3,855,122	284	13,574
Lynwood	70,908	7	10,130
Malibu	12,854	2	6,427
Maywood	27,850	7	3,979
Montebello	63,538	10	6,354
Pasadena	139,382	2	69,691
Pomona	151,511	2	75,756
West Hollywood	34,971	10	3,497
Total Served Cities	5,157,462	384	13,431
Total Unserved Cities	3,792,358	0	
Unincorporated Area	1,095,600	0	
Total County	10,045,420	384	26,160
Figures assume all microbusinesses conduct retail sales			

The 384 existing retailers are located in just 16 of the 88 cities in the County, which combined hold roughly half of the total County population. These "served" cities have a retail density of 1 retailer per 13,431 residents, which is higher than our planning density. This suggests that the retailers located in these cities are also serving other neighboring or nearby "unserved" cities and unincorporated communities.

Figure 7, on the next page, shows the number of retailers that we would generally expect to see at our standard assumed retail density of 1 retailer per 20,000 residents. The 384 retailers in the served cities is 126 more than we would commonly expect based on the population of only those cities. Of course, retailers in these cities are also serving consumers in the unserved cities and unincorporated communities. We estimate that the combined population of these unserved areas could support 244 retailers. Combining the number of existing retailers in the served cities with the vacancy in the unserved areas leaves an unmet capacity of 118 additional retailers.

Figure 7:

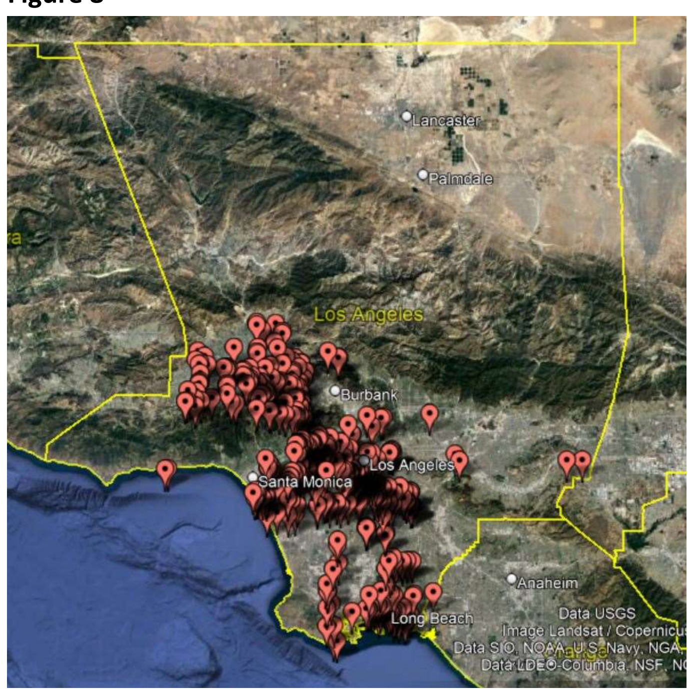
Cannabis Retailer Capacity by Population					
City/County	**Population**	**Total Retailers**	**Population per Retailer**	**Capacity at 1 per 20,000**	**Over/Under Capacity**
Served cities	5,157,462	384	13,431	258	**126**
Unserved cities	3,792,358	0	N/A	190	**-190**
Unincorporated area	1,095,600	0	N/A	55	**-55**
Total unserved area	4,887,958	0	N/A	244	**-244**
Total County	10,045,420	384	N/A	502	**-118**
Figures assume all microbusinesses conduct retail sales Projections assume an area is well-served when there is one retailer per every 20,000 residents					

The unincorporated area covers 2,635 square miles, or more than 65 percent of the County. Some 1,268 square miles of this is federal lands, including the Santa Monica Mountains and the Angeles National Forest. While much of it is densely populated, other areas are more isolated and rural in nature, particularly those communities north of the San Gabriel Mountains near Lancaster. Locating cannabis retailers to serve the unincorporated area will need to balance proximity to the most populated areas, including unserved cities, with locations to serve these more remote communities.

Retail studies show that 93% of consumers are willing to travel 15 to 20 minutes to make most routine purchases[x]. This distance is likely somewhat higher in more rural areas. The most populated communities in the unincorporated area of the County are all generally within this distance from cities with existing cannabis retailers, which suggests that the vast majority of the County's population already has some amount of access to legal cannabis, though perhaps not convenient. These travel times may also be exacerbated by traffic.

Figure 8 shows the general locations of the 384 existing cannabis retailers in Los Angeles County. The heavy concentration of retailers in central Los Angeles and the San Fernando Valley is clearly evident, as is the lack of retailers in Antelope Valley north of the San Gabriel Mountains. There also appears to be a lack of retailers in the San Gabriel Valley, South Bay, Santa Clarita Valley and Gateway Communities regions.

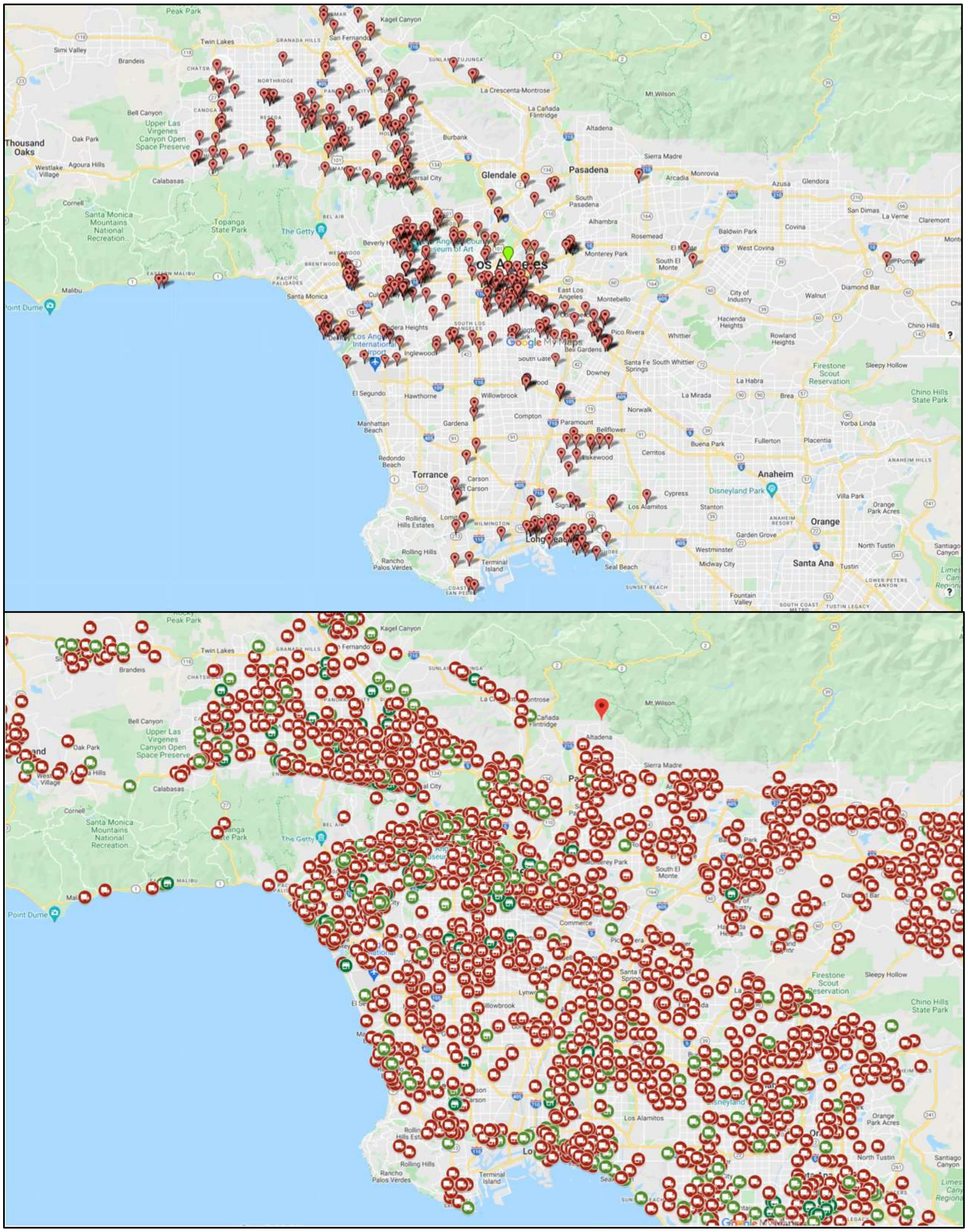
Figure 8



While all of these areas other than Antelope Valley are generally within 20 minutes of existing retailers, consumers in these locations would likely have to plan a special trip to their nearest cannabis retailer, rather than stopping in on their way to or from the grocery store.

Though Los Angeles County is reasonably well served by licensed retailers, they are still far outnumbered by unlicensed cannabis delivery services. The map at the top of Figure 9 displays the licensed retailers in the County, shown in red. The map at the bottom shows an estimated 1,000 or more unlicensed delivery services[11], shown in red, which far outnumber the licensed retailers in green.

Figure 9



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[11] Data derived from Weedmaps. Unlicensed delivery services are shown based on the areas they deliver to, rather than their 'home' location, so a single delivery service may be represented many times on this map.

Figure 10 shows the area and population range of the cities and unincorporated communities in the County[xi]. Figure 11 shows the retail density of those cities that have cannabis retailers, and also shows those cities and the unincorporated area that have no cannabis retailers. As can be seen, the vast majority of the County and its cities are unserved, though most have reasonable access in nearby cities.

Figure 10:

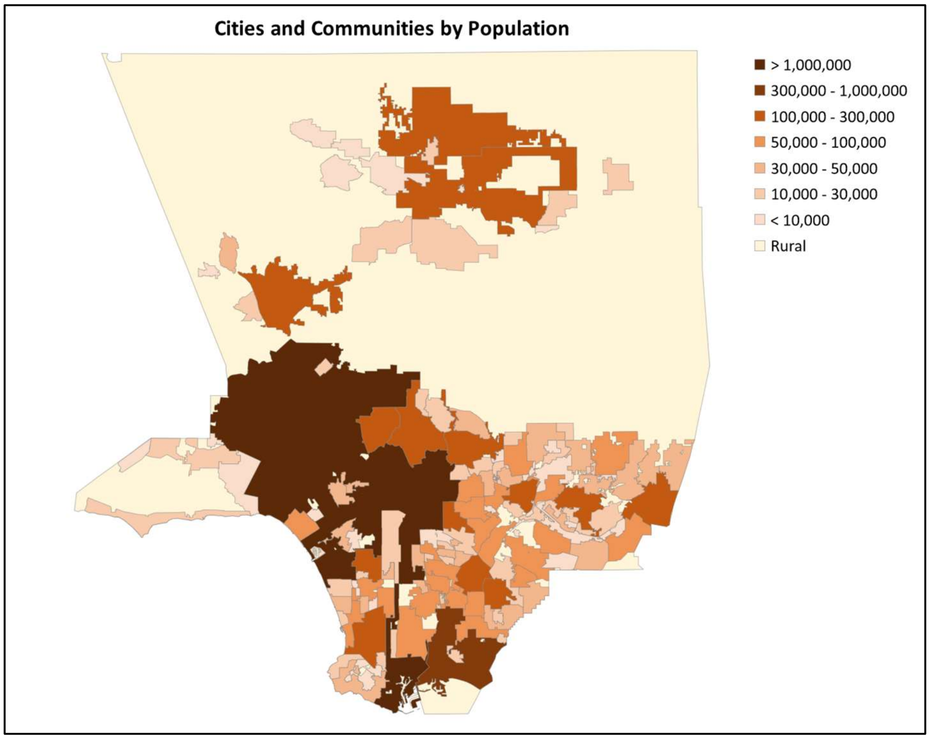
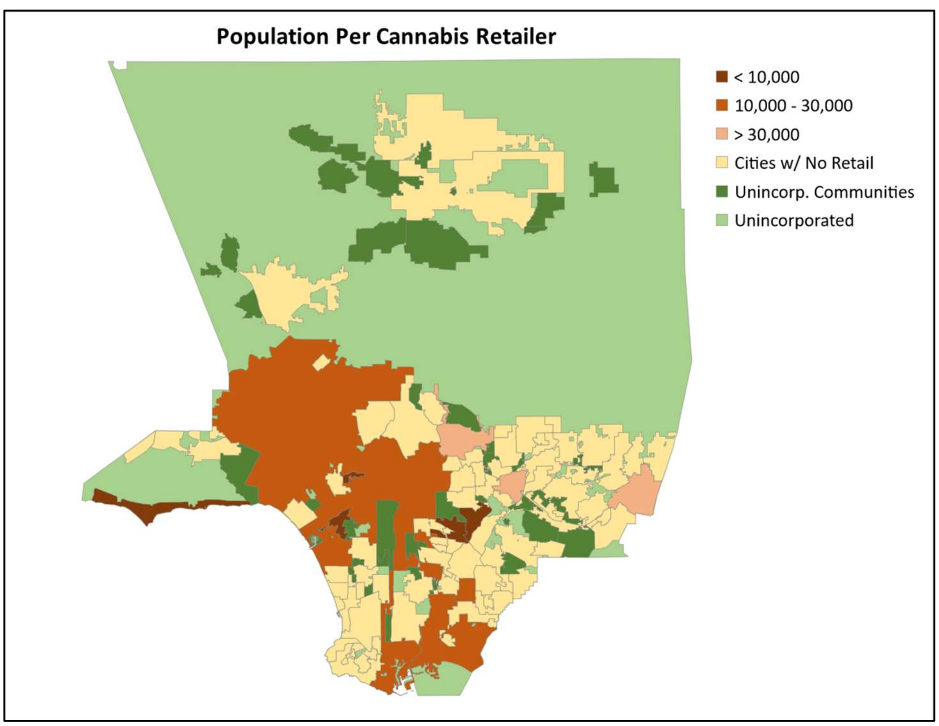


Figure 11:



In Figure 11, on the next page, we have provided a general scenario to estimate a reasonable range of cannabis tax revenues that the County may be able to generate from 50 licensed cannabis retailers (25 storefront and 25 non-storefront delivery) in the unincorporated area. Our analysis here is based on the size of the unserved market, not the number of retailers. However, we have adjusted our estimates to reflect the fact that the 50 retail licenses anticipated by the County is less than one half of the market capacity. Our estimates assume that these 50 retailers are located in a way that allows them to serve both the unincorporated area and unserved cities.

Starting with the overall County population of 10,045,420 people, we then back out the population of those cities already served by licensed retailers. This leaves us with the population of the unserved cities (3,792,358) and the unincorporated area (1,095,600), for a total unserved population of 4,887,958. However, we note that the number of retailers in the incorporated cities is high enough to also serve nearly half of the market in the unincorporated areas. For this reason, we have reduced our estimate of the unserved population by 50%, down to 2,443,979.

Figure 7 (page 15) showed that there is an unmet capacity of 118 additional retailers in the unincorporated area. The County anticipates an initial launch of 50 retail licenses and will potentially increase the number over the following years based on data and impacts of the initial launch. Due to the physical size of the County's unincorporated area, we do not believe that these 50 retailers would be adequate for serving this entire geographic area. For this reason, we have provided an additional 50% reduction to the size of the resident market that we believe will be served by this limited number of retailers. This brings our consumer base down to 1,221,990.

To this figure we apply a range of assumptions for the percentage of the population that uses cannabis on a regular basis. These estimates vary from around 10% to 13%[xii], up to as high as 22%[xiii]. This percentage is influenced by social acceptance of cannabis within the local community. Applying these estimates to our estimated population base of 1,221,990 people in the unincorporated area yields between roughly 122,000 and 269,000 potential cannabis consumers.

Cannabis retailers typically average around 120 customers per day[xiv]. Data shows that a typical cannabis consumer makes a purchase of $73 with an average frequency of twice a month[xv]. Applying this to our range of cannabis consumers yields monthly sales of between $18 million and $39 million, which works out to annual gross receipts of between $214 million and $471 million.

However, as with much of California, the County is still home to a thriving illicit market, with an unknown but significant number of unlicensed cannabis delivery services operating throughout the County. To account for this, we have assumed an additional 30% leakage to these unlicensed retailers. This brings our estimate of total gross receipts down to a range of $150 million to $330 million.

Applying our recommended retail cannabis tax rates to this range of total gross receipts yields a range of revenue projections. Applying HdL's recommended "low" rate of 4.0% would yield between $6 million and $13.2 million in annual cannabis tax revenue for the County, with a best estimate of $7.8 million. Applying a rate of 5.0% would yield between $7.5 million and $16.5 million, with a best estimate of $9.7 million in annual revenue. Applying HdL's recommended "maximum" rate of 6.0% would yield between $9 million and $19.8 million, with a best estimate of $11.7 million in annual cannabis tax revenue for the County.

In addition, retail cannabis sales would also generate between $1.5 million and $3.3 million in Bradley-Burns sales tax revenue for the County. These estimates are all shown in Figure 12, below.

Figure 12:

Revenue Projections for Cannabis Retailers			
	Low Estimate	"Best" Estimate	High Estimate
Total County	10,045,420	10,045,420	10,045,420
Population of served cities	5,157,462	5,157,462	5,157,462
Population of unserved cities	3,792,358	3,792,358	3,792,358
Population of unincorportated area	1,095,600	1,095,600	1,095,600
Total unserved population	4,887,958	4,887,958	4,887,958
Leakage to retailers in incorporated cities	50%	50%	50%
Resident population adjusted for leakage	2,443,979	2,443,979	2,443,979
Reduction for limited number of retailers	50%	50%	50%
Resident population adjusted for number of retailers	1,221,990	1,221,990	1,221,990
Percentage of population that uses cannabis	10%	13%	22%
Number of cannabis users	122,199	158,859	268,838
Average transaction amount	$73	$73	$73
Transaction frequency (per month)	2	2	2
Monthly gross receipts	$17,841,047	$23,193,361	$39,250,303
Annual gross receipts	$214,092,560	$278,320,329	$471,003,633
Leakage to black market (30%)	$64,227,768	$83,496,099	$141,301,090
Adjusted annual gross receipts	$149,864,792	$194,824,230	$329,702,543
Cannabis business tax rate:			
4.00%	$5,994,592	$7,792,969	$13,188,102
5.00%	$7,493,240	$9,741,211	$16,485,127
6.00%	$8,991,888	$11,689,454	$19,782,153
Bradley-Burns 1.0% Local Sales Tax	$1,498,648	$1,948,242	$3,297,025

VI. Cannabis Manufacturers

The manufacturing sector is still evolving and expanding, which presents significant opportunities for innovation, business development and job growth. The range of products being produced includes an ever-increasing variety of edibles such as candies, cookies, dressings, and infused (non-alcoholic) drinks. Manufacturers may produce their own extract on site, or they may buy extract from other Type 6 or Type 7 licensees.

Much like any other industry, cannabis manufacturers often depend upon other businesses to supply them with the various materials or components that go into their final product. These suppliers do not have to be located in or even near the same jurisdiction as the final manufacturer, and may be located anywhere throughout the state. In addition, the non-cannabis components of their products, such as papers, cartridges, packaging and non-cannabis food ingredients can be sourced from other states or even other countries.

Some manufacturers may handle all steps from extraction to packaging the end product in the form of vape pens or other such devices. Others may handle only discrete steps, such as making the raw cannabis concentrate, which is then sold either directly to retailers or to a Type N manufacturer who will package it into vapor cartridges or other end consumer products. Manufacturers also produce a wide variety of tinctures, as well as topicals such as cannabis infused lotions, salves, sprays, balms, and oils.

As of February 1, 2022, the Department of Cannabis Control shows 915 cannabis manufacturing licenses statewide. This is down from 1,029 in 2020, suggesting that the number of such businesses has likely plateaued somewhat. Of these, 476 are for non-volatile extraction, 198 are for volatile extraction, 161 are for non-extraction manufacturing, 36 are for packaging and labeling, and 41 are for manufacturers using a shared-use facility[12]. These 915 businesses are owned by 888 separate companies.

In its 2017 regulatory impact analysis[xvi], the Manufactured Cannabis Safety Branch (MCSB; now absorbed in the Department of Cannabis Control) estimated that there may ultimately be as many as 1,000 cannabis manufacturing businesses in California, employing around 4,140 people. This would indicate an average of 4 new jobs per manufacturer, though this figure likely varies significantly depending on the size and nature of each business.

Though the actual number of cannabis manufacturers in California has generally hovered around this number for the past few years, we believe these figures for both the potential number of cannabis manufacturing businesses and for the average number of employees are both on the low side. HdL is aware of individual manufacturers which have over 100 employees. While this may not be the norm, it demonstrates that individual cannabis manufacturers have the potential to far exceed the MCSB's early predictions.

In addition, some 70% of cities and counties in California continue to ban cannabis businesses outright[xvii], which greatly limits the size of the overall market available to legal businesses. As more jurisdictions allow and permit commercial cannabis businesses, the number of cultivators, manufacturers, distributors and retailers should increase accordingly to supply this growing market. We believe that the number of

[12] These manufacturing license types are all defined in Appendix A; Legal and Regulatory Background for California.

cannabis products manufacturers will continue to grow in parallel and proportion to the size of California's legal and licensed cannabis market.

HdL has reviewed pro-formas for numerous cannabis manufacturers seeking permits in counties and cities throughout California. From our review we have seen a range of gross receipts from around $1 million to well over $20 million, with an average in the range of $2 million to $3 million.

Figure 12, below, shows the range of cannabis tax revenues that could be generated by licensed cannabis manufacturers in the unincorporated area of the County applying HdL's recommended rates of 2.5% to 4.0% of gross receipts. We have provided a scenario that assumes the County allows and permits 10 cannabis manufacturers, each with average gross receipts of $2.5 million. Again, we emphasize that this is an average based on a huge range, with some individual manufacturers showing gross receipts of well over $20 million. We believe the conservative estimates below are more reliable for purposes of revenue projections.

At HdL's recommended initial rate of 2.5%, 2 manufacturers could generate $625,000 in cannabis tax revenue for the County. Applying a tax rate of 3.0%, would generate $750,000 in revenue for the County, and a tax rate of 4.0% would generate $1,000,000 in annual cannabis tax revenue for the County.

Figure 12:

Cannabis Manufacturers; HdL Recommended Rates						
Type 6/7/N/P Manufacturer	# of Licenses	Avg Gross Receipts	Total Gross Receipts	Revenue @ 2.5% Tax Rate	Revenue @ 3.0% Tax Rate	Revenue @ 4.0% Tax Rate
Scenario 1	10	$2,500,000	$25,000,000	$625,000	$750,000	$1,000,000

VII. Cannabis Distributors

Perhaps more than any other part of the cannabis supply chain, distributors are greatly dependent upon the number and variety of other cannabis business types within their service area. Essentially, distributors need a certain "critical mass" of other cannabis businesses for them to serve. Because of this, distributors tend to be located in cities or regions which have an appropriate base of cultivation or manufacturing businesses to work with, as well as a large surrounding customer base.

As a very general figure, the number of cannabis distributors statewide is roughly 20% of the number of all other cannabis businesses, combined, or 1 distributor for every 4 other cannabis businesses. In addition, virtually all licensed microbusinesses in California include distribution as one of their licensed activities[13]. We can reasonably extrapolate from this to assume that a similar ratio of distributors to other businesses is necessary within any defined region.

The business model for distributors is based on a percentage markup on the price paid to their suppliers. This markup commonly averages 20% to 30%, though this depends upon the actual services being provided. However, it is important to note that the distributor category may include a variety of services, not all of which are provided by all licensed distributors. Just over 12% of distributors hold Type 13 licenses that allow self-distribution or transport only. A distributor which is only buying and reselling cannabis at wholesale may make as little as 10% on a transaction, while a distributor which is purchasing raw flower and packaging it as pre-rolls for retail sale may make 50% or more on such a value-added transaction.

Distributors may have annual revenues ranging from less than $1 million to over $70 million. The vast majority of distributors would fall at the lower end of that range, with those at the high end qualifying as outliers. While there is not yet an abundance of data to determine the average gross receipts for distributors, HdL has reviewed a number of pro-formas for distributors seeking licenses in other jurisdictions. These indicate anticipated gross receipts commonly in the range of $2 million to $3 million per year, with an average of $2.5 million.

Data from the Department of Cannabis Control shows that there are currently 339 licensed distributors in the Los Angeles County region and 999 other cannabis businesses, or roughly 1 distributor for every 3 other cannabis businesses, which is significantly higher than the 1-to-4 ratio we commonly see. This suggests that the region is already well served with cannabis distributors, and that there may not be immediate demand for additional such businesses. However, as the County and additional cities begin permitting cannabis businesses in their jurisdictions, we would expect that the number of cannabis distributors would likely increase over time in proportion to the increase other cannabis business types.

Some portion of these new distributors would likely hold a distribution license as an ancillary activity to reduce operating costs for their primary business as a cultivator, manufacturer or retailer and to provide a secondary revenue stream. This would be particularly true in the more remote rural areas of the County, where allowing a mix of business activities may be the key to business viability.

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[13] Data as of April 2021. The Department of Cannabis Control has recently changed how it reports this data, which prevents us from being able to determine the specific types of activities being conducted by microbusinesses.

Figure 13, below, shows the range of cannabis tax revenues that could be generated by cannabis distributors in the unincorporated area of the County applying HdL's recommended rates of 2.0% to 3.0% of gross receipts. The County has provided direction to allow up to 10 cannabis distributors in the unincorporated area, which we believe is a reasonable and attainable number. We have estimated average gross receipts of $2.5 million. Again, we emphasize that this is an average based on a huge range, with some outliers showing gross receipts in the tens of millions of dollars. While it is certainly possible such a business may wish to establish itself in the unincorporated area of the County, we believe conservative estimates below are more reliable.

At HdL's recommended initial rate of 2.0%, 10 distributors located in the unincorporated area could generate $600,000 in cannabis tax revenue for the County. As with our projections for other license types, we caution that this the number of businesses and the gross receipts for each will likely take time to develop. The County should not look at this as a first- or second-year projection.

Figure 13:

Cannabis Distributors; HdL Recommended Rates						
Distributors	**# of Licenses**	**Avg Gross Receipts**	**Total Gross Receipts**	**Revenue @ 2.0% Tax Rate**	**Revenue @ 2.5% Tax Rate**	**Revenue @ 3.0% Tax Rate**
Scenario 1	10	$2,000,000	$20,000,000	$400,000	$500,000	$600,000

VIII. Cultivation

The State of California has been issuing licenses for cannabis cultivation since January 1, 2018. These licenses were initially issued by the CalCannabis Division of the California Department of Food and Agriculture (CDFA) but have since transitioned to the newly-formed Department of Cannabis Control (DCC). The Standardized Regulatory Impact Assessment prepared for CDFA as a part of its rule-making process estimated that Californians consume approximately 2.5 million pounds of cannabis per year[xviii].

As of February 1, 2022, data from the DCC shows 8,494 active cultivation licenses statewide, held by 3,392 distinct businesses[14]. These licenses cover nearly 2,000 acres of canopy and are capable of producing over 16 million pounds of cannabis per year. Of these, there are 41 businesses that each hold 20 cultivation licenses or more, and 10 of which hold more than 100 licenses each. The largest of these holds 271 cultivation licenses. Combined, these large cultivators hold 2,840 cultivation licenses, with 657 acres of canopy capable of producing nearly 3.6 million pounds of cannabis per year. These 41 large cultivators alone could supply far more cannabis than is consumed by all Californians, combined.

Despite this cultivation capacity, reporting from the California Department of Tax and Fee Administration (CDTFA) shows that only 2,350,000 pounds of cannabis entered the commercial market in 2020[xix] (the last year for which data is available), which is very close to the CDFA's early estimate. The huge difference between cultivation capacity and the size of the licensed market is difficult to explain. It is believed that some portion of legally cultivated cannabis is being diverted into the illicit market both within California and across the country, but the amount and the mechanism for how it is being diverted are unknown.

The cannabis cultivation market in California has far exceeded its saturation point, which suggests that there is not enough room for those growers already licensed, much less new entrants into the market. More than any other part of the cannabis industry, entry into the highly competitive cultivation sector can be filled with risk and requires ample capitalization and a clear strategy to win shelf space. It is not uncommon for small, independent cannabis producers and manufacturers to have to pay for retail shelf space just to get their product in front of consumers.

Cannabis cultivation taxes are most commonly assessed on a square-footage basis. As with other cannabis business types, HdL recommends the County consider tax rates for cultivation that are consistent with those discussed in Section III; *Common Cannabis Tax Rates*, as shown in Figure 4. Cannabis cultivation taxes may also be assessed on gross receipts or by weight. Any of these methods can be accommodated, and each can be adjusted to generate an equivalent amount of revenue. Each method also has its advantages and disadvantages.

A tax based on square footage can be seen essentially as a tax on area of impact, under the assumption that the greater the size of the operation, the higher the impact on the surrounding neighborhood and County services. The tax is on the privilege of being allowed to cultivate a certain square footage, not upon the amount of cannabis produced or the value of that cannabis.

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[14] The actual number of distinct businesses is likely somewhat lower, as minor typos or inconsistencies in how a name is written appear as separate business names in the DCC database.

A square footage tax has the advantage that the amount of annual tax liability is generally known in advance by both the County and the tax-paying business, as it is keyed to the permitted amount of cultivation area. This allows both parties to budget accordingly. Variances in the actual amount of cultivation area being planted per cycle can be accommodated through advance notification, monitoring and regular inspections or audits. The amount of tax paid does not automatically increase with inflation, making it necessary to include a mechanism to adjust the tax rate annually in accordance with the Consumer Price Index (CPI).

Taxing cannabis cultivation by weight is essentially a tax on production. The tax is on the volume of product, rather than on the size of the operation or the profits generated. This method assumes that the volume of cannabis being produced creates a commensurate impact on the community. The State tax rate for cultivation is set by weight at $10.08 per ounce of dried flower or $3.00 per ounce of dried leaf. Because these rates are set by weight, rather than as a percentage of price paid, the tax is the same whether the cultivator is producing commercial-grade cannabis at $300 per pound or top-grade cannabis at $2,000 per pound. Reporting and remittance for a weight-based tax can be tied to the figures being reported to the State. As with the square-footage tax, it is necessary to annually adjust the tax rate to reflect changes in the CPI.

A tax on gross receipts taxes the gross income of the business, not the actual profits. As such, a gross receipts tax is effectively a tax on conducting business, regardless of the physical size of the operation, the volume of cannabis being produced, or the profitability of the business. A gross receipts tax has the advantage of increasing or decreasing in accordance with income and automatically adjusting for inflation. Because the cannabis industry largely operates on a cash basis, annual financial audits are highly recommended to ensure that all receipts have been properly reported and all taxes fairly remitted.

Each of these tax methods has advantages and disadvantages for the operator, depending upon the cultivation methods being used and the price point for the cannabis being produced. Indoor and mixed-light cultivation are both able to produce multiple harvests per year, while outdoor cultivation only produces one, so the square footage rates must be adjusted for each. In addition, cannabis grown indoors tends to demand a higher market price than mixed-light, with outdoor cannabis getting the lowest prices of the three. This is a factor that should be adjusted for both square footage rates and per-pound rates.

HdL has developed a methodology for comparing tax rates by square footage, gross receipts and by weight. Though there are numerous variables that can only be determined on a case-by-case basis, this methodology allows us to determine rates that are generally equivalent regardless of the tax basis being used. This allows the host jurisdiction to ensure that their cultivation tax rates are generally consistent with the rates applied by other nearby jurisdictions, even when they are using different taxing methods.

Cultivation yield is generally assumed to average one pound of cannabis flower for every 10 square feet of cultivation area. This metric is drawn from a 2010 study by the Rand Corporation[xx]. Though the study is fairly old for such a young industry, its findings remain generally consistent with more recent studies. Some cultivation facilities can yield one pound for every eight square feet, and others cite yields that are much lower (more square feet per pound), but 10 square feet remains a convenient and commonly used metric which provides for conservative estimates. Using this figure, a 10,000 square foot cultivation facility operating 4 cycles would produce around 4,000 pounds of cannabis per year.

The price per pound is conservatively assumed to be $1,000. This figure is somewhat lower than the current average for indoor-grown cannabis, but there is still great variability in the market and, over the long term we anticipate that wholesale prices for raw cannabis will continue to decline. Applying this figure, our 10,000 square foot facility would generate $4 million in gross receipts.

Figure 14 (below) shows how these assumptions can be applied to generate an equivalent tax rate based on square footage, weight or gross receipts, and the total annual tax that would be paid for a hypothetical 10,000 square feet of cultivation. We have used a base rate of 1.00% of gross receipts for illustration purposes. The County does not intend to permit outdoor cultivation at this time, so our analysis here is limited to indoor and mixed-light cultivation, only.

As can be seen, both methods pay the same percentage of gross receipts and the same price per pound, but the effective tax rate per square foot and the total annual tax paid varies greatly due to the different number of harvest cycles possible with each method.

Figure 14:

Cultivation Tax Rates Assuming Constant Market Price									
	A	B	C	D	E	F	G	H	I
Cultivation Type	Harvest Cycles /Year	Sample Area (sq ft)	Yield @ 1 lb/10 sf /cycle	Price per pound	Gross Receipts	Tax Rate % Gross Receipts	Tax Rate per SF	Tax Rate per Pound	Total Annual Tax Paid
Indoors	4	10,000	4,000	$1,000	$4,000,000	1.00%	$4.00	$10.00	$40,000
Mixed Light	3	10,000	3,000	$1,000	$3,000,000	1.00%	$3.00	$10.00	$30,000

As discussed above, the market has generally been awarding a higher price for cannabis grown indoors than for cannabis grown in mixed-light. Though prices can vary widely, we assume a conservative market price differential of $1,000 per pound for indoors and $800 for mixed light. When we adjust for this price differential, the equivalent rates per square foot and per pound both change significantly, as does the total annual tax paid. This is shown in Figure 15.

Figure 15:

Cultivation Tax Rates Assuming Variable Market Price									
	A	B	C	D	E	F	G	H	I
Cultivation Type	Harvest Cycles /Year	Sample Area (sq ft)	Yield @ 1 lb/10 sf /cycle	Price per pound	Gross Receipts	Tax Rate % Gross Receipts	Tax Rate per SF	Tax Rate per Pound	Total Annual Tax Paid
Indoors	4	10,000	4,000	$1,000	$4,000,000	1.00%	$4.00	$10.00	$40,000
Mixed Light	3	10,000	3,000	$800	$2,400,000	1.00%	$2.40	$8.00	$24,000

HdL generally recommends that tax rates for indoor cultivation be set at an initial rate of $7 per square foot (sf) up to a maximum rate of $10 per square foot, with mixed-light cultivation ranging from $4/sf to $7/sf. We would recommend that square footage taxes be set at initial rates of $7/sf for indoor cultivation and $4/sf for mixed light. These rates would give an approximate equivalent rate of 1.67% to 1.75% of gross receipts, as shown in Figure 16, below. We note that these rates do not all result in nice, round numbers, but we encourage readers of this report not to dwell upon that detail. As discussed above, there are many variables in cultivation and it is unlikely that any two cultivators will have exactly the same yield per square foot or receive exactly the same price per pound for their product.

Figure 16:

Initial Cultivation Tax Rates Assuming Variable Market Price									
	A	B	C	D	E	F	G	H	I
Cultivation Type	Harvest Cycles /Year	Sample Area (sq ft)	Yield @ 1 lb/10 sf /cycle	Price per pound	Gross Receipts	Tax Rate % Gross Receipts	Tax Rate per SF	Tax Rate per Pound	Total Annual Tax Paid
Indoors	4	10,000	4,000	$1,000	$4,000,000	1.75%	$7.00	$17.50	$70,000
Mixed Light	3	10,000	3,000	$800	$2,400,000	1.67%	$4.00	$13.33	$40,000

Figure 17, below, shows rates based upon $10 per square foot for indoor cultivation and $6 per square foot for mixed-light. These would give an equivalent rate of approximately 2.50% of gross receipts.

Figure 17:

Maximum Cultivation Tax Rates Assuming Variable Market Price									
	A	B	C	D	E	F	G	H	I
Cultivation Type	Harvest Cycles /Year	Sample Area (sq ft)	Yield @ 1 lb/10 sf /cycle	Price per pound	Gross Receipts	Tax Rate % Gross Receipts	Tax Rate per SF	Tax Rate per Pound	Total Annual Tax Paid
Indoors	4	10,000	4,000	$1,000	$4,000,000	2.50%	$10.00	$25.00	$100,000
Mixed Light	3	10,000	3,000	$800	$2,400,000	2.50%	$6.00	$20.00	$60,000

Maximum rates exist primarily to provide an upper limit for the purposes of the cannabis tax ballot measure and are not intended as a target to be achieved. The maximum rates are provided to allow for future scenarios where the higher rates may be appropriate based upon changes in the marketplace. For this reason, we recommend that the maximum rate be based upon the constant market price scenario where all cultivation types receive the same price for their product. Essentially, the initial rates should be set to reflect current market conditions, while the maximum rates should be adequate to allow for unforeseeable future market conditions. We recommend that the maximum square footage rates for cultivation be set at $10/sf for indoor and $7/sf for mixed light as shown in Figure 18.

Figure 18:

Maximum Cultivation Tax Rates Assuming Constant Market Price									
	A	B	C	D	E	F	G	H	I
Cultivation Type	Harvest Cycles /Year	Sample Area (sq ft)	Yield @ 1 lb/10 sf /cycle	Price per pound	Gross Receipts	Tax Rate % Gross Receipts	Tax Rate per SF	Tax Rate per Pound	Total Annual Tax Paid
Indoors	4	10,000	4,000	$1,000	$4,000,000	2.50%	$10.00	$25.00	$100,000
Mixed Light	3	10,000	3,000	$1,000	$3,000,000	2.33%	$7.00	$23.33	$70,000

For purposes of revenue projections, we have provided a scenario where the 10 permits to be issued by the County are divided between 5 licenses for medium indoor cultivation (Type 3A) and 5 licenses for medium mixed-light cultivation (Type 3B). The Type 3A indoor and Type 3B mixed-light cultivation licenses are allowed to cultivate up to 22,000 square feet of canopy.

Multiplying by the number of licenses gives a total cultivation area of 110,000 square feet of canopy each for mixed-light and indoor cultivation, for a total of 220,000 square feet. Applying HdL's recommended initial tax rates of $4.00/sf for mixed light and $7.00/sf for indoor would yield a total of $1,210,000 in annual cannabis tax revenue for the County. Applying medium rates of $5.50/sf and $8.50/sf, respectively, would generate up to $1,540,000, and HdL's maximum rates of $7.00/sf and $10/sf would generate up to $1,870,000 in annual revenue for the County. These revenues are shown in Figures 19, 20 and 21, below.

Figure 19:

Cannabis Cultivation; HdL Initial Rate					
Cultivation Type	**# of Sites**	**Avg. Square Footage**	**Total Square Footage**	**Tax Rate per Square Foot**	**Total Tax Revenue**
Indoor	5	22,000	110,000	$7.00	$770,000
Mixed Light	5	22,000	110,000	$4.00	$440,000
Total	**10**		**220,000**		**$1,210,000**

Figure 20:

Cannabis Cultivation; HdL Medium Rate					
Cultivation Type	**# of Sites**	**Avg. Square Footage**	**Total Square Footage**	**Tax Rate per Square Foot**	**Total Tax Revenue**
Indoor	5	22,000	110,000	$8.50	$935,000
Mixed Light	5	22,000	110,000	$5.50	$605,000
Total	**10**		**220,000**		**$1,540,000**

Figure 21:

Cannabis Cultivation; HdL Maximum Rate					
Cultivation Type	**# of Sites**	**Avg. Square Footage**	**Total Square Footage**	**Tax Rate per Square Foot**	**Total Tax Revenue**
Indoor	5	22,000	110,000	$10.00	$1,100,000
Mixed Light	5	22,000	110,000	$7.00	$770,000
Total	**10**		**220,000**		**$1,870,000**

IX. Testing Laboratories

As of February 1, 2022, the Department of Cannabis Control has issued 43 licenses for cannabis testing laboratories in California. These laboratories tend to be located in areas with a large amount of commercial cannabis activity. Data from the DCC shows 6 testing laboratories located in the City of Los Angeles, 5 in Long Beach, 2 in Monrovia and 1 in Pasadena. Nearby, there are 5 testing labs in Orange County (3 in Irvine and 2 in Santa Ana) and 2 in Cathedral City in Riverside County.

The Medical and Adult Use Cannabis Regulation and Safety Act (MAUCRSA) requires that all dried cannabis flower or leaf must be tested for tetrahydrocannabinol (THC) and cannabidiol (CBD) content, contaminants, impurities and other factors before it can be sold to a manufacturer, distributor, dispensary or end user. Batch testing for raw cannabis requires a 2.3 gram sample per pound, which works out to a loss of 0.5% of the volume (the sample must be destroyed after testing). DCC regulations limit the maximum batch size to no more than 10 pounds. The costs for all of the tests as required under MAUCRSA have not yet settled into a clear norm, but an online survey of a number of cannabis testing facilities in California suggest an average of $750 per 10-pound batch, or $75 per pound, which equals 7.5% of the $1,000 per pound price. The cost and loss of product amount to an additional 8% cost to the product which, when added to the cultivation tax, excise tax and any local taxes, helps push the cumulative tax rate towards 30%.

Testing is a semi-regulatory function mandated by the State to protect consumer health and safety, and which amounts to a State-imposed cost on the product. Unlike cultivation or manufacturing, testing does not create product or add value to the product, and unlike distributors or retailers, the testing laboratory is prohibited from having any ownership interest in the product. MAUCRSA requires that testing laboratories be completely independent from any other cannabis business, and prevents them from benefitting from, or having any interest in, the results of the test or the value of the product. In this way, testing laboratories are categorically different from any other cannabis business type. An analogy might be an independent auto shop that does State mandated smog tests for used car dealerships. They perform the test to State standards for a given price, but they don't benefit in any way from the sale of the car, or from its sale price.

HdL generally recommends that cannabis testing laboratories be taxed at a rate of 1% up to 2% of gross receipts. However, given the semi-regulatory function they provide, some cities and counties have chosen not to apply a tax to testing facilities.

Pro formas reviewed by HdL suggest average gross receipts of $2,000,000 for testing laboratories. Below we have shown the amount of revenue that could potentially be generated from 1 facility, though we would recommend that the County should not anticipate any testing laboratories for purposes of revenue projections, as there are already 14 located in various cities within the County.

Figure 22:

Cannabis Testing Laboratories; HdL Recommended Rates						
Testing Laboratories	# of Licenses	Avg Gross Receipts	Total Gross Receipts	Revenue @ 1.0% Tax Rate	Revenue @ 1.5% Tax Rate	Revenue @ 2.0% Tax Rate
Scenario 1	1	$2,000,000	$2,000,000	$20,000	$30,000	$40,000

APPENDIX

A. Legal and Regulatory Background for California

The legal and regulatory status of cannabis in the State of California has been continually evolving ever since the passage of Proposition 215, the Compassionate Use Act of 1996 (CUA), which de-criminalized the use, possession and cultivation of cannabis for qualifying patients and their primary caregivers when such use has been recommended by a physician. The CUA did not create any regulatory program to guide implementation, nor did it provide any guidelines for local jurisdictions to establish their own regulations. The lack of legal and regulatory certainty for medical marijuana (or cannabis) continued for nearly 20 years, until the passage of the Medical Cannabis Regulation and Safety Act (MCRSA) in October of 2015. MCRSA created a State licensing program for commercial medical cannabis activities, while allowing counties and cities to maintain local regulatory authority. MCRSA required that the State would not issue a license without first receiving authorization by the applicable local jurisdiction.

On November 8, 2016, the voters of the State of California approved Proposition 64, the Adult Use of Marijuana Act (AUMA), which allows adults 21 years of age or older to legally grow, possess, and use marijuana for personal, non-medical "adult use" purposes, with certain restrictions. AUMA requires the State to regulate non-medical marijuana businesses and tax the growing and selling of medical and non-medical marijuana. Cities and counties may also regulate non-medical marijuana businesses by requiring them to obtain local permits or restricting where they may be located. Cities and counties may also completely ban marijuana related businesses if they so choose. However, cities and counties cannot ban transport of cannabis products through their jurisdictions, nor can they ban delivery of cannabis by licensed retailers to addresses within their jurisdiction (added later through regulations).

On June 27, 2017, the Legislature enacted SB 94, which repealed MCRSA and incorporated certain provisions of MCRSA into the licensing provisions of AUMA. These consolidated provisions are now known as the Medicinal and Adult-Use Cannabis Regulation and Safety Act (MAUCRSA). MAUCRSA revised references to "marijuana" or "medical marijuana" in existing law to instead refer to "cannabis" or "medicinal cannabis," respectively. MAUCRSA generally imposes the same requirements on both commercial medicinal and commercial adult-use cannabis activity, with certain exceptions. MAUCRSA also made a fundamental change to the local control provisions. Under MCRSA, an applicant could not obtain a State license until they had a local permit. Under MAUCRSA, an applicant for a State license does not have to first obtain a local permit, but they cannot be in violation of any local ordinance or regulations. The State licensing agency shall contact the local jurisdiction to see whether the applicant has a permit or is in violation of local regulations, but if the local jurisdiction does not respond within 60 days, then the applicant will be presumed to be in compliance and the State license will be issued.

MAUCRSA authorizes a person to apply for and be issued more than one license only if the licensed premises are separate and distinct. With the passage of AB 133 in 2017, a person or business may co-locate multiple license types on the same premises, allowing a cultivator to process, manufacture or distribute their own product from a single location. This includes the allowance to cultivate, manufacture, distribute or sell cannabis for both medical and adult use from a single location. Licensees of cannabis testing operations may not hold any other type of license. However, these allowances are still subject to local land use authority, so anyone seeking to operate two or more license types from a single location would be prohibited from doing so unless local regulations allow both within the same zone.

The table below provides a detailed overview of the license types available under California's cannabis regulations:

State Cannabis Business License Types				
Type	**Activity**	**Description**	**Details**	**Notes**
1	Cultivation	Outdoor; Specialty, Small	Up to 5,000 sf, or 50 plants on non-contiguos plots	A, B
1A	Cultivation	Indoor; Specialty, Small	501 sf - 5,000 sf	A, B
1B	Cultivation	Mixed-Light; Specialty, Small	2,501 sf - 5,000 sf	A, B
1C	Cultivation	Outdoor/indoor/mixed; Specialty Cottage, Small	Up to 25 plants outdoor; up to 2,500 sf mixed light; up to 500 sf indoor	A, B
2	Cultivation	Outdoor; Small	5,001 sf - 10,000 sf	A, B
2A	Cultivation	Indoor; Small	5,001 sf - 10,000 sf	A, B
2B	Cultivation	Mixed Light, Small	5,001 sf - 10,000 sf	A, B
3	Cultivation	Outdoor; Medium	10,001 sf - one acre	A, B, C
3A	Cultivation	Indoor; Medium	10,001 sf - 22,000 sf	A, B, C
3B	Cultivation	Mixed-Light; Medium	10,001 sf - 22,000 sf	A, B, C
4	Cultivation	Nursery		A, B
-	Cultivation	Processor	Conducts only trimming, drying, curing, grading and packaging of cannabis	A, B, E
5	Cultivation	Outdoor; Large	Greater than 22,000 sf	A, B, D
5A	Cultivation	Indoor; Large	Greater than 22,000 sf	A, B, D
5B	Cultivation	Mixed-Light; Large	Greater than 22,000 sf	A, B, D
6	Manufacturer 1	Extraction; Non-volatile	Allows infusion, packaging and labeling	A, B
7	Manufacturer 2	Extraction; Volatile	Allows infusion, packaging and labeling, plus non-volatile extraction	A, B
N	Manufacturer	Infusion for Edibles, Topicals	No extraction allowed	A, B, E
P	Manufacturer	Packaging and Labeling	No extraction allowed	A, B, E
S	Manufacturer	Shared-use manufacturer	Manufacturing in a shared-use facility	A, B, E
8	Testing		Shall not hold any other license type	A
9	Retailer	Non-storefront retail delivery	Retail delivery without a storefront	A, F
10	Retailer	Retail sale and delivery		A, B
11	Distributor			A, B
12	Microbusiness	Cultivation, Manufacturer 1, Distributor and Retailer	< 10,000 sf of cultivation; must meet requirements for all license types	A, B

A	All license types valid for 12 months and must be renewed annually
B	All license types except Type 8 Testing must be designated "A" (Adult Use), "M" (Medical) or "A/M"
C	CDFA shall limit the number of licenses allowed of this type
D	No Type 5 licenses shall be issued before January 1, 2023
E	Established through rulemaking process

AUMA, and its successor MAUCRSA, required three state agencies, the Bureau of Cannabis Control, the California Department of Food and Agriculture, and the California Department of Public Health, to permit commercial cannabis licensees and to adopt regulations for the cannabis industry. On January 16, 2019, all three agencies announced that the state's Office of Administrative Law officially approved state regulations, which took immediate effect and replaced emergency regulations that had been in effect since 2017. The final regulations were largely similar to the emergency regulations, but somewhat controversially, Section 5416(d) of the Bureau of Cannabis Control regulations authorizes deliveries of cannabis products into any city or county in the state, even if a city or county has banned commercial deliveries.

On July 12, 2021, Governor Gavin Newsom signed AB 141 into law, which consolidated the Bureau of Cannabis Control, the California Department of Food and Agriculture's CalCannabis Division, and the California Department of Public Health's Manufactured Cannabis Safety Branch into a single agency, now called the Department of Cannabis Control.

B. State Tax Considerations

To determine what local tax rates might be most appropriate, they must be considered in the context of other taxes imposed by the State. Any local taxes will be in addition to those taxes applied through the Adult Use of Marijuana Act (AUMA), which imposes both a 15% excise tax on purchases of cannabis or cannabis products and a separate cultivation tax on harvested cannabis that enters the commercial market, as well as sales tax. Taxes are most commonly expressed as a percent of price or value, so some method of conversion is necessary to allow development of an appropriate cultivation tax based on square footage.

The State tax rate for cultivation is set at $10.08 per ounce of dried flower or $3.00 per ounce of dried leaf. Because these rates are set per ounce, rather than as a percentage of price paid, the tax is the same whether the cultivator is producing commercial-grade cannabis at $500 per pound or top-grade cannabis at $2,500 per pound. The cultivator is generally responsible for payment of the tax, though that responsibility may be passed along to either a manufacturer or distributor via invoice at the time the product is first sold or transferred. The distributor is responsible for collecting the tax from the cultivator upon entry into the commercial market, and remitting it to the California Department of Tax and Fee Administration.

Cumulative Cannabis Taxes			
Category	**Amount**	**Increase**	**Cumulative Price**
Producer Price	$1,000	$1,000	$1,000
State Cultivation Tax, per oz.	$10.08	$161	$1,161
Local Tax	2.50%	$25	$1,186
Batch Testing	$75/lb, + 0.75%	$75	$1,261
Wholesale Price w/ Taxes		$1,261	
Total Tax at Wholesale		$261	
Tax as %		26.13%	
Distributor Markup	20.00%	$252	$1,514
Local Tax	2.00%	$30	$1,544
Total Distributor Price		$1,544	
Total Taxes at Distributor		$292	
Total Tax as %		18.89%	
Retailer Markup	100.00%	$1,544	$3,088
Local Tax	4.00%	$124	$3,211
State Excise Tax	15.00%	$463	$3,674
Total Retailer Price		$3,674	
Total Taxes at Retail		$878	
Total Tax as %		23.90%	
CA Sales Tax (non-medical)	6.25%	$230	$3,904
Local Sales Taxes	3.25%	$119	$4,023
Total Taxes at Retail		**$1,227**	
Total Tax as %		**30.50%**	
Total Local Tax		**7.41%**	**$298.19**

The cultivation tax of $10.08 per ounce of dried flower is equivalent to $161 per pound. Just 2 years ago, HdL would have assumed an average wholesale market price for dried flower of around $1,500 per pound, which would make that $161 equal to roughly 11% of value. Since then, however, prices have plummeted.

Competitive market forces enabled by legalization have brought the average price for indoor cannabis down to around $1,000 per pound, or even less (cannabis prices vary greatly based on product quality).

Conversations with cannabis industry trade groups suggest that the cumulative tax rate on the end product should remain at or below 30%. Higher rates create too much price disparity between legal and illegal cannabis, making it harder for the regulated industry to compete with the illicit market. Higher local tax rates can also make a county or city less attractive to the industry, especially for manufacturers and distributors, which have greater flexibility in choosing where to locate. We believe that setting rates that adhere to this 30% rule will help keep the local cannabis industry competitive with other cultivators across California, thus encouraging the transition to a legal industry.

The above table shows how the cumulative tax rate on adult-use cannabis builds as the product moves towards market. The value of the product increases as it moves through the supply chain towards market, with manufacturers, distributors and retailers each adding their own markup. Testing laboratories do not add a direct markup to the product, but the cost of testing and the loss of a small test sample can add around $75 per pound. Any or all of these activities may be taxed.

This model assumes a hypothetical case where cultivation, manufacturing, testing, distribution and retail sale all happen within the same jurisdiction and are thus all subject to that jurisdiction's tax rates. In actuality, this is unlikely to be the case. Manufacturers may work with product purchased from anywhere in California, and may sell their product to retailers elsewhere, as well. The cumulative tax burden for any product at retail sale will almost always include a variety of tax rates from numerous jurisdictions.

C. State and Local Tax/Fee Burden on Cannabis Cultivation

There has been much public discussion over the past six months or so regarding high cannabis cultivation tax rates imposed by local jurisdictions across the state. HdL has examined the issue to determine the degree to which the setting or adjusting of local cultivation tax rates can provide meaningful and equitable tax relief to cannabis cultivators.

The 3 scenarios below are provided to show how State and local taxes and fees combine to create an overall tax burden on cannabis cultivation and to illustrate the portion of the overall tax/fee burden that is within the control of the local jurisdiction. These scenarios both consider a hypothetical 10,000 square feet of cultivation area using our standard assumptions for the number of harvests per year, product yield and price. We assume that outdoor cultivation will achieve 1 harvest cycle per year, mixed-light cultivation will achieve 3 harvests, and indoor cultivation will achieve 4. Yield assumes that all cultivation types will yield 1 pound of dried flower for every 10 square feet of canopy. We note that these are all general assumptions, provided only for purposes of comparison.

Scenario 1; High Tax Rates with a Constant Market Price

Scenario 1, below, assumes that all cultivation types will achieve the same $1,000 per pound wholesale market price ("constant market price"). This is shown in Column D. Under this scenario, 10,000 square feet of indoor cultivation would generate gross receipts of $4 million, 10,000 square feet of mixed-light cultivation would generate $3 million, and 10,000 square feet of outdoor cultivation would generate $1 million (Column E).

In Column F we have applied separate square-footage tax rates for each cultivation type ($3/sf for outdoor, $9/sf for mixed-light, and $12/sf for indoor) that are simple multiples of the number of harvests we have allowed for each. These rates give a total tax paid of $30,000 for outdoor cultivation, $90,000 for mixed-light and $120,000 for indoor (Column G). Assuming a constant market price of $1,000 per pound, the equivalent gross receipts tax rate would be 3.0% for all cultivation types (Column I).

Scenario 1; High Rates w/ Constant Market Price									
	A	B	C	D	E	F	G	H	I
Cultivation Type	Harvest Cycles /Year	Sample Area (sq ft)	Yield @ 1 lb/10 sf /cycle	Price per pound	Gross Receipts	Tax Rate per SF	Total Annual Tax Paid	Tax Rate per Pound	Tax Rate % Gross Receipts
Indoors	4	10,000	4,000	$1,000	$4,000,000	$12.00	$120,000	$30.00	3.00%
Mixed Light	3	10,000	3,000	$1,000	$3,000,000	$9.00	$90,000	$30.00	3.00%
Outdoors	1	10,000	1,000	$1,000	$1,000,000	$3.00	$30,000	$30.00	3.00%

In the second table, below, we have calculated the total state and local taxes and annual license fees for each cultivation type. The State's cultivation tax of $10.08 per pound of dried flower equals $161.28 per pound. We have applied this to our assumed yield in the upper table to show the State tax paid for each cultivation type (Column J). In Column K we have added the Department of Cannabis Control's annual license fees, which produces a total State tax/fee burden of $166,100 for outdoor, $495,640, for mixed-light and $680,530 for indoor, as shown in Column L.

In Column N we have assumed a general average of $22,000 for the annual permit fees from the local jurisdiction. Annual permit fees vary greatly from jurisdiction to jurisdiction, with a range from under $3,000 to nearly $150,000, but the most common range is between $15,000 and $30,000. Removing the outliers gives an average of $22,000. Combined with the annual tax paid (from Column G in the first table), the total local tax/fee burden ranges from $52,000 to $142,000, as shown in Column O.

Scenario 1; Combined State and Local Tax/Fee Burden

	J	K	L	M	N	O	P	Q	R	S	T	U
Cultivation Type	State Cultivation Tax Paid @ $10.08/oz	State Annual License Fee	State Taxes and Fees; Total	Local Cultivation Tax (Column G)	Local Annual License Fee	Local Taxes and Fees; Total	Total Taxes and Fees	Total Gross Receipts (Column E)	Total Taxes/Fees as % Gross Receipts	State Taxes/Fees as % Gross Receipts	Local Taxes/Fees as % Gross Reciepts	Local % of Total Tax/Fee Burden
Indoors	$645,120	$35,410	$680,530	$120,000	$22,000	$142,000	$822,530	$4,000,000	20.56%	17.01%	3.55%	17.26%
Mixed Light	$483,840	$11,800	$495,640	$90,000	$22,000	$112,000	$607,640	$3,000,000	20.25%	16.52%	3.73%	18.43%
Outdoors	$161,280	$4,820	$166,100	$30,000	$22,000	$52,000	$218,100	$1,000,000	21.81%	16.61%	5.20%	23.84%

The total State and local tax/fee burden ranges from $218,100 for outdoor cultivation up to $607,640 for mixed-light and $822,530 for indoors (Column P). Expressed as a percentage of gross receipts (from Column E in the first table), the total State and local tax/fee burden runs from 20.25% for mixed-light, to 20.56% for indoor and 21.81% for outdoor (Column R).

From this overall tax/fee burden, we can determine the portion of that burden that is due to local taxes and fees and, thus, the portion that the local jurisdiction has the ability to control or reduce in an effort to provide relief for cannabis cultivators. For outdoor cultivation, State taxes and fees total 16.61% of gross receipts (Column S) while local taxes and fees equal just 5.20% (Column T). Expressed another way, local taxes and fees make up 23.84% of the total tax fee burden (Column U), with State taxes and fees accounting for the rest.

For mixed-light cultivation, State taxes and fees total 16.52% of gross receipts while local taxes and fees equal 3.73%, accounting for 18.43% of the total State/local tax fee burden. For indoor cultivation, State taxes and fees equal 17.01% of gross receipts, while local taxes and fees make up just 3.55%, or just 17.26% of the overall tax/fee burden. In short, even with a relatively high square footage tax rates as used in this scenario, the local jurisdiction only has influence over roughly 17% to 24% of the total tax/fee burden. Up to 83% of the total tax/fee burden is imposed by the State and is thus beyond the control of the local jurisdiction.

Scenario 2; High Tax Rates with a Varying Market Price

Scenario 2 maintains the same assumptions for number of harvests and yield, and the same square-footage tax rates as in Scenario 1. The only variable we have changed is the market price per-pound of cannabis produced by each cultivation method (Column D). Outdoor cannabis achieves the same $1,000 per-pound rate as in Scenario 1, while mixed-light achieves $800 per pound and outdoor fetches just $600 per-pound ("varying market price"). This is a very general price spread that more accurately reflects current market conditions, though we note that actual prices can vary widely depending on THC content, quality, consistency and numerous other factors. All other inputs for taxes and fees remain the same.

As can be seen in the table below, this difference in market price has no change on the annual tax paid under a square footage tax rate. However, the equivalent rate as a percentage of gross receipts changes dramatically, as both mixed-light and outdoor are now paying the same amount of tax on a lower amount of gross receipts (Column E). The equivalent gross receipts rate for indoor remains the same at 3.00%, while the equivalent rate for mixed-light climbs to 3.75% and the equivalent rate for outdoor moves up to 5.00% (Column I).

Scenario 2; High Rates w/ Varying Market Price									
	A	B	C	D	E	F	G	H	I
Cultivation Type	Harvest Cycles /Year	Sample Area (sq ft)	Yield @ 1 lb/10 sf /cycle	Price per pound	Gross Receipts	Tax Rate per SF	Total Annual Tax Paid	Tax Rate per Pound	Tax Rate % Gross Receipts
Indoors	4	10,000	4,000	$1,000	$4,000,000	$12.00	$120,000	$30.00	3.00%
Mixed Light	3	10,000	3,000	$800	$2,400,000	$9.00	$90,000	$30.00	3.75%
Outdoors	1	10,000	1,000	$600	$600,000	$3.00	$30,000	$30.00	5.00%

All State and local taxes and fees remain the same, as these are not tied to the business' gross receipts. Since the price per pound for indoor cultivation has not changed in this scenario, there is no change to the tax/fee burden. For mixed-light and outdoor cultivation, however, the impact of those taxes and fees as an equivalent percentage of gross receipts changes significantly. The total tax/fee burden as a percentage of gross receipts rises to 25.32% for mixed-light and to 36.35% for outdoor cultivation (Column R). The State tax/fee burden rises to 20.65% for mixed-light cultivation and 27.68% for outdoor (Column S), while the local tax/fee burden rises to 4.67% for mixed-light and 8.67% for outdoor (Column T). The percentage of the total tax/fee burden that is due to local taxes and fees (Column U) remains unchanged, as the rates have not changed in this scenario, only the relative price per pound.

Scenario 2; Combined State and Local Tax/Fee Burden												
	L	M	N	O	P	Q	P	Q	R	S	T	U
Cultivation Type	State Cultivation Tax Paid @ $10.08/oz	State Annual License Fee	State Taxes and Fees; Total	Local Cultivation Tax (Column G)	Local Annual License Fee	Local Taxes and Fees; Total	Total Taxes and Fees	Total Gross Receipts (Column E)	Total Taxes/Fees as % Gross Receipts	State Taxes/Fees as % Gross Receipts	Local Taxes/Fees as % Gross Reciepts	Local % of Total Tax/Fee Burden
Indoors	$645,120	$35,410	$680,530	$120,000	$22,000	$142,000	$822,530	$4,000,000	20.56%	17.01%	3.55%	17.26%
Mixed Light	$483,840	$11,800	$495,640	$90,000	$22,000	$112,000	$607,640	$2,400,000	25.32%	20.65%	4.67%	18.43%
Outdoors	$161,280	$4,820	$166,100	$30,000	$22,000	$52,000	$218,100	$600,000	36.35%	27.68%	8.67%	23.84%

Scenario 3; Low Tax Rates with a Varying Market Price

Scenario 3 maintains the same assumptions for number of harvests and yield, and the same varying market prices as described in Scenario 2 but applies a much lower range of square footage tax rates (Column F). We have reduced the rates to $4/sf for indoor cultivation, $3/sf for mixed-light and $1/sf for outdoor. These rates cleanly match the average number of harvest cycles per year for each cultivation type. As shown in the table below, the total annual tax paid (Column G) drops to $40,000 for 10,000sf of indoor cultivation, $30,000 for mixed-light, and $10,000 for outdoor. The equivalent gross receipts tax rate drops to 1.00% for indoor, $1.25 for mixed-light and $1.67 for outdoor (Column I).

Scenario 3; Low Rates w/ Varying Market Price									
	A	B	C	D	E	F	G	H	I
Cultivation Type	Harvest Cycles /Year	Sample Area (sq ft)	Yield @ 1 lb/10 sf /cycle	Price per pound	Gross Receipts	Tax Rate per SF	Total Annual Tax Paid	Tax Rate per Pound	Tax Rate % Gross Receipts
Indoors	4	10,000	4,000	$1,000	$4,000,000	$4.00	$40,000	$10.00	1.00%
Mixed Light	3	10,000	3,000	$800	$2,400,000	$3.00	$30,000	$10.00	1.25%
Outdoors	1	10,000	1,000	$600	$600,000	$1.00	$10,000	$10.00	1.67%

These lower rates bring the overall tax/fee burden down by around 2% to 3%, compared to Scenario 2. For indoor cultivation, the total tax fee burden drops to 18.56%, for mixed-light, the burden drops to 22.82% and for outdoor it drops to 33.02% (Column R). Even with the local rates being based on the number of harvests per year, the tax burden still has an unequal impact, particularly on outdoor cultivation. This is due to portion of that burden that comes from State taxes and fees, which remains at 17.01%, 20.65% and 27.68% for indoor, mixed-light and outdoor, respectively (Column S). The total local tax/fee burden as a percentage of gross receipts drops to just 1.55% for indoor cultivation, 2.17% for mixed-light and 5.33% for outdoor. The uneven burden across the cultivation types is due to the annual fees, which in these scenarios remain constant regardless of cultivation type. Local taxes and fees make up 8.35% of the total tax/fee burden for indoor cultivation, 9.50% for mixed-light and 16.15% for outdoor. From 84% to 92% of the total tax/fee burden is due to taxes and fees imposed by the State of California.

Scenario 3; Combined State and Local Tax/Fee Burden												
	L	M	N	O	P	Q	P	Q	R	S	T	U
Cultivation Type	State Cultivation Tax Paid @ $10.08/oz	State Annual License Fee	State Taxes and Fees; Total	Local Cultivation Tax (Column G)	Local Annual License Fee	Local Taxes and Fees; Total	Total Taxes and Fees	Total Gross Receipts (Column E)	Total Taxes/Fees as % Gross Receipts	State Taxes/Fees as % Gross Receipts	Local Taxes/Fees as % Gross Reciepts	Local % of Total Tax/Fee Burden
Indoors	$645,120	$35,410	$680,530	$40,000	$22,000	$62,000	$742,530	$4,000,000	18.56%	17.01%	1.55%	8.35%
Mixed Light	$483,840	$11,800	$495,640	$30,000	$22,000	$52,000	$547,640	$2,400,000	22.82%	20.65%	2.17%	9.50%
Outdoors	$161,280	$4,820	$166,100	$10,000	$22,000	$32,000	$198,100	$600,000	33.02%	27.68%	5.33%	16.15%

Conclusion

This analysis was provided to show how State and local taxes and fees combine to create an overall tax burden on cannabis cultivation and to illustrate the portion of the overall tax/fee burden that is within the control of the local jurisdiction. We have provided 3 scenarios employing only 2 variables: tax rates per square foot and the market price per pound. These scenarios demonstrate that the taxes and fees imposed by the State of California account for as much as 92% of the overall tax/fee burden for cannabis cultivators. Even when the local jurisdiction imposes relatively high taxes, the State's portion of the overall tax/fee burden on cannabis cultivators still exceeds 75%. Given this, the amount of tax relief that can be offered by a city or county is limited.

In addition, fees must be set to accurately reflect the actual cost to the local government of regulating the cannabis business. A reduction in fees must be accompanied by a commensurate reduction in staff time or other county/city costs, which generally means less regulatory oversight of the business. Otherwise, any reduction in fees would result in regulatory costs being paid out of the general fund and, thus, borne by the taxpayers, generally, rather than by the business that benefits from the service provided. Given this, the local jurisdiction's ability to provide relief is limited further still, to only that portion of the overall State and local tax/fee burden that is comprised of local cannabis taxes.

This analysis also shows the importance of setting cultivation tax rates that are equitable for the various cultivation types. Outdoor cultivation, in particular, is limited to only a single harvest per year and generally receives a significantly lower wholesale price per pound. Both of these factors must be considered when setting square footage tax rates to keep the equivalent rates as a percentage of gross receipts similar.

D. Fiscal Impacts and Fees

HdL has prepared this fiscal impact study to provide a general discussion of the County costs that may be associated with the permitting, regulatory monitoring and enforcement of cannabis businesses. This study is intended to inform the County's decision making regarding the development of a cannabis regulatory and tax program by giving an overview of the types of costs that may be incurred, including those costs from exploration and development of the cannabis regulatory program, costs from a review and selection process for cannabis business applicants, land use entitlements and building permits, environmental review where necessary, regulatory monitoring, permit renewals, and any enforcement actions or appeals.

Along with generating revenues through a cannabis business tax, commercial cannabis businesses also bring certain costs to the host jurisdiction due to the staff time and other expenses associated with the permitting, regulation and enforcement of those businesses. In developing a cannabis regulatory program, the County should anticipate these costs and develop cost recovery fees adequate to cover all direct County costs.

The County of Los Angeles is still in the exploratory phase of developing its cannabis regulatory and tax program. It is currently unknown which (if any) commercial cannabis business types will be allowed, or how many, or in what locations, or with what level of regulatory restrictions and oversight. It is also unknown the level to which the County may want to provide relief from certain regulatory costs for social equity applicants. Given this, it is not yet possible to know the details of the County's application review and selection process, the array of businesses that may need to be permitted and regulated, the level of regulatory oversight desired by the County and other important factors necessary for determining the actual permitting and regulatory fees that will be needed.

Recoverable costs may include, but are not limited to, any or all of the following:

- Costs associated with the development of a commercial cannabis regulatory program:
    - Initial outreach and exploration
    - Ordinance development
    - Environmental review
    - Meeting costs and development of staff reports and other materials
    - Consultant costs
    - Development of application procedures and guidelines
    - Development of appropriate fees
    - Development of regulatory protocols and administrative procedures
- Costs associated with the review and permitting of individual cannabis businesses:
    - Development of an RFP for cannabis businesses (if utilized)
    - Conducting application reviews and applicant interviews
    - Background checks
    - Land use permitting and entitlements, including CUP hearings if needed
    - Processing building permits
    - Pre-license inspections
    - Consultant costs associated with any of the above

- Costs associated with ongoing monitoring and permit renewals:
    - Regulatory compliance inspections (may be conducted annually or semi-annually)
    - Other routine inspections that may be required (environmental health, fire department, etc.)
    - Annual revenue audits to ensure proper reporting and remittance of taxes
    - Permit renewal processing
    - Program administration

- Costs associated with mitigating external impacts to the community or the environment:
    - Traffic impacts
    - Odor, noise or lighting impacts
    - Social or public health impacts, *where a clear nexus can be established*

- Costs associated with enforcement and appeals:
    - Regulatory enforcement of any findings of non-compliance
    - Processing and conducting any appeals of enforcement actions
    - Law enforcement actions where necessary

These various costs may be recovered through a variety of fees. In general, costs are assigned to the person or business entity that benefits from the service being provided by the County. The beneficiary varies among the many policy development and regulatory activities described above. Development of the regulatory program benefits those who are allowed to operate a business that would otherwise be prohibited. Processing of applications and land use permits benefits the applicant or proposed business. The cost of monitoring existing businesses for compliance and processing permit renewals benefits the business as it allows them to continue to operate.

Fees are generally divided into a number of categories including initial application fees, permitting and land use entitlement fees, and annual permit renewal fees which may include costs for compliance inspections and annual revenue audits to ensure the business is reporting and remitting the proper portion of gross receipts. Each of these general categories may include a number of individual fees to cover distinct costs or services, not all of which would be applied in every case. These costs all vary from jurisdiction to jurisdiction, depending upon a variety of factors specific to each city or county.

Initial application fees can vary greatly depending upon the details of the application process required by the jurisdiction. Some cities or counties choose not to limit the number of cannabis businesses or to process applications on a "first-come, first-served" basis. Others may solicit applications for a limited number of permits, which will then be reviewed on either a quality assurance (pass/fail) basis or merit-based (high-low score) basis. Final selection of permittees may be done through either a discretionary process or via lottery, where permittees are chosen at random from a pool of all qualifying applicants.

Once applicants have been selected to move forward into the permitting process, the land use entitlement and building permit process is no different than it would be for other, similar businesses. The amount of County staff time (and thus the cost) may vary greatly depending upon the specific location, needed construction or tenant improvements and other building requirements.

Annual permit fees vary greatly from jurisdiction to jurisdiction, based upon the desired level of regulatory oversight and administration. Jurisdictions may require that businesses submit to one or more regulatory compliance inspections per year, as well as annual cannabis revenue audits to ensure the business is reporting and remitting the proper portion of gross receipts to the host city or county. In addition, some jurisdictions choose to place certain regulatory roles within law enforcement, which may include POST certified officers. This can greatly increase the cost for these regulatory services.

In the table below we have provided the annual permit fees for 27 cities and counties from around California[xxi]. The fees range from a high of $14,645 for the City of San Jose to a low of just $2,606 for Calaveras County. We note that the permit fees for some jurisdictions may vary depending upon the specific type of cannabis business. In such cases, the table displays the highest cost.

Among this sample set, the average annual permit fee is $20,789 per year. However, this range I heavily skewed by the fees for the City of San Jose, which are more than three-times higher than the next highest fees. We regard this as an outlier as it is not otherwise representative of the overall range.

When we exclude the fees from the City of San Jose, the average annual permit fee among our sample set of California cities and counties comes down to $16,076. We believe this lower figure is more representative.

Agency	Annual Permit Fee
San Jose	$147,645
Davis	$42,359
San Luis Obispo (City)	$39,634
Chula Vista	$31,275
Redwood City	$29,530
Culver City	$27,771
Placerville	$22,841
Modesto	$21,740
Sacramento (City)	$20,800
San Diego (City)	$20,803
Grover Beach	$20,000
Vista	$19,967
Oakland	$16,676
Santa Ana	$12,529
Goleta	$11,879
Palm Springs	$10,984
Salinas	$9,854
Oceanside	$8,511
Los Angeles (City)	$9,735
Vallejo	$8,288
Santa Barbara (County)	$6,945
San Luis Obispo (County)	$6,836
San Francisco	$4,354
Monterey (County)	$4,355
Santa Cruz (County)	$4,000
Watsonville	$3,700
Calaveras County	$2,606
Average Annual Permit Fee: **Excluding San Jose as an Outlier:**	**$20,789** **$16,076**

These annual permit costs reflect the direct per-business cost for each jurisdiction to provide its desired level of regulatory oversight for permitted cannabis businesses, including regulatory monitoring and inspections, revenue audits, annual permit renewals and overall administration of its cannabis business regulatory and tax program.

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