



Staff Report

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**File #:** 22-0951

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**REQUEST FOR CITY COUNCIL ACTION**

**DATE:** 12/07/2022

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

**FROM:** Legal and Risk Management

**SUBJECT:**

Ordinance setting commercial cannabis business tax rates pursuant to Measure G adopted by the voters.

**EXECUTIVE SUMMARY:**

Corona Municipal Code Chapter 3.38, enacted by Ordinance No. 3352 and approved by a majority vote at the November 8, 2022 General Municipal Election, establishes the maximum rate of the commercial cannabis business tax. Chapter 3.38 authorizes the City Council to downwardly adjust the rate of the tax without voter approval. The attached Ordinance No. 3359 sets the initial rates for the commercial cannabis business tax.

**RECOMMENDED ACTION:**

**That the City Council** introduce, by title only, and waive full reading of Ordinance No. 3359 setting commercial cannabis business tax rates.

**BACKGROUND & HISTORY:**

On October 21, 2020, the City Council adopted Ordinance No. 3321 adding Chapter 5.36 to the Corona Municipal Code ("CMC") to permit and regulate certain types of commercial cannabis businesses within the City. The City Council also adopted a resolution establishing Rules and Regulations for Permitting Commercial Cannabis Businesses, the most current version of which is set forth in Resolution No. 2021-022. Section V(C)(4)(c) of said Rules and Regulations requires commercial cannabis businesses operating within the City to pay an operating fee established by the City Council.

On July 6, 2022, the City Council adopted Resolution No. 2022-102 calling for the placement of a tax measure on the ballot for the November 8, 2022 General Municipal Election to establish a tax on commercial cannabis businesses operating within the City ("Cannabis Tax Measure"). If approved by a majority of the City voters, the Cannabis Tax Measure would add Chapter 3.38 to the CMC.

**ANALYSIS:**

The provisional results from the November 8, 2022 election indicate that the Cannabis Tax Measure was approved by a majority vote of eligible voters voting at the November 8, 2022 election.

CMC Section 3.38.030(B), enacted as part of the Cannabis Tax Measure, established the maximum rate of the commercial cannabis business tax as follows:

Retail sale (including delivery):	9%
Manufacturing and distribution:	7%
Testing laboratories:	3%
Illegal commercial cannabis businesses:	15%

CMC Section 3.38.040 provides that the City Council may, by ordinance, downwardly adjust the rate of the maximum tax without voter approval.

Based upon previous direction from the City Council, the attached Ordinance No. 3359 is presented for the City Council's consideration to set the initial tax rates for commercial cannabis businesses as follows:

Retail sale (including delivery):	7%
Manufacturing and distribution:	5%
Testing laboratories:	2%
Illegal commercial cannabis businesses:	15%

As discussed previously with the Council, the first three rates above are the same rates as those currently required to be paid by the cannabis businesses as their contractual operating fee (Section V (C)(4)(c) of Rules and Regulations for Permitting Commercial Cannabis Businesses). The above illegal cannabis business rate is designed not only to assist in recouping the City's illegal business enforcement efforts, both also as a deterrent.

CMC Section 3.38.030(B) also establishes a maximum tax rate of 15% for the operation of a commercial cannabis business that is not currently permitted by CMC Chapter 5.36. The intent for this provision was to have a voter approved tax rate for any other type of commercial cannabis business that may be permitted by the City in the future, such as cultivation. However, since the City does not currently permit any other type of commercial cannabis business, it is not necessary to establish an initial rate for all other cannabis businesses. If the City decides to permit other types of commercial cannabis businesses in the future, the City Council can adopt a separate ordinance to set the tax rate for those businesses.

Since the election results for the November 8, 2022 were not received from the County Registrar of Voters prior to the agenda deadline, the attached Ordinance No. 3359 was drafted to become effective 30 days after the second reading or 10 days after the election results are certified, whichever is later.

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As directed by the City Council, with the adoption of the Cannabis Tax Measure, the City will not require the payment of or collect the operating fee set forth in Section V(C)(4)(c) of Rules and Regulations for Permitting Commercial Cannabis Businesses adopted pursuant to Resolution No. 2021-022.

**FINANCIAL IMPACT:**

It is estimated that the commercial cannabis tax will generate approximately \$5,000,000 annually.

**ENVIRONMENTAL ANALYSIS:**

This action is exempt under the California Environmental Quality Act ("CEQA") Guidelines Section 15378(b)(5), which states that a project is exempt from CEQA if the activity relates to organizational or administrative activities of governments that will not result in direct or indirect physical changes in the environment, and therefore is not a project within the meaning of CEQA. The recommended action simply sets the initial tax rates for commercial cannabis businesses, and there is no possibility that this action will have a significant effect on the environment. Therefore, no further environmental analysis is required.

**PREPARED BY:** JAMIE RAYMOND, CHIEF DEPUTY CITY ATTORNEY

**REVIEWED BY:** DEAN DERLETH, CITY ATTORNEY/LRM DIRECTOR

**Attachments:**

1. Exhibit 1 - Ordinance No. 3359