



STAFF REPORT
6/12/2024

TO: Honorable Mayor and City Council Members
FROM: Anahi Fernandez, Management Analyst
SUBJECT: City of Coachella Cannabis Business Program Update

STAFF RECOMMENDATION:

Staff recommends that the City Council receive and file the City of Coachella Cannabis Business Program Update.

BACKGROUND:

The City of Coachella adopted commercial cannabis activity regulatory permits in Coachella Municipal Code (C.M.C.) Chapter 5.68 of Title 5 (Business Licenses and Regulations) in 2016 to regulate the cultivation, manufacturing, testing, distribution, and transportation of medicinal and nonmedicinal adult use cannabis within the City. Later, in 2018, the City adopted cannabis retailer and retail microbusiness regulatory permits in C.M.C. Chapter 5.69 of Title 5, and conducted two rounds of retail cannabis reviews for Conditional Use Permit (CUP) and Cannabis Regulatory Permit (CRP) applications. Cannabis retail round one (1) took place in 2018, and cannabis retail round two (2) took place in 2020. In 2019, the City implemented its Cannabis Social Equity Program (CSEP) to provide assistance and support to individuals negatively impacted by the disproportionate enforcement of cannabis-related crimes, providing them with an opportunity to participate in the cannabis industry.

DISCUSSION/ANALYSIS:

The City of Coachella has twenty-two (22) active cannabis operators. Eleven (11) operators conduct cultivation activities, one (1) operator conducts manufacturing, four (4) conduct distribution, there are two (2) permitted microbusinesses, five (5) active storefront retailers, and one (1) non-storefront retailer. Table 1 provides a detailed list of the City's active cannabis operators.

Table 1: City of Coachella Cannabis Operators

City of Coachella Cannabis Operators		
DBA	Business Type	Premise
Scarlett Rae Holdings	Cultivation	Avenue 48
Gentleman’s Cut	Cultivation	Avenue 48
Greenwel Consulting	Cultivation	Avenue 48
JVTS	Cultivation	Avenue 48
Coachella Herb Plantation	Cultivation & Distribution	Avenue 48
Green Renewable Future	Cultivation	Avenue 48
Coachella Valley Growers	Cultivation	Fillmore Street
Verde Six Twelve	Cultivation	Avenue 48
AJAX Farms	Cultivation	Avenue 48
Massive Industries	Cultivation	Avenue 54
Ares One	Cultivation	Avenue 48
D9 Manufacturing	Manufacturing & Distribution	Avenue 48
Coachella Distribution	Distribution	Avenue 48
Loyalty AC	Distribution	Avenue 48
Coachella Lighthouse	Storefront Retail	Avenue 48
Coachella Smoke Co	Storefront Retail	Grapefruit Blvd.
Coachella Releaf	Storefront Retail	Avenue 54
Coachella Greenery	Storefront Retail	Avenue 48
Coachella Canna Club	Storefront Retail	Dillon Road
Best Friends Farm	Non Storefront Retail	Avenue 50
Verde Nine Fourteen	Microbusiness	Avenue 48
Chad Enterprises	Microbusiness	Cesar Chavez St.

Cannabis Tax Revenues

Cannabis tax revenues are collected by the City on a quarterly basis. In 2022, the City Council revised cannabis tax rates for cultivation, manufacturing, and testing to encourage growth of the cannabis industry in the City. The City’s current tax rates for cannabis businesses are as follows:

- A. Cultivation (indoor & outdoor) – \$0.03 per dollar of gross receipts
- B. Retail – six cents (\$0.06) for each \$1.00 of gross receipts
- C. Manufacturing - \$0.02 per dollar of gross receipts
- D. Distribution – zero cents (\$0.00) for each \$1.00 of gross receipts; and
- E. Testing – zero cents (\$0.00) for each \$1.00 of gross receipts.

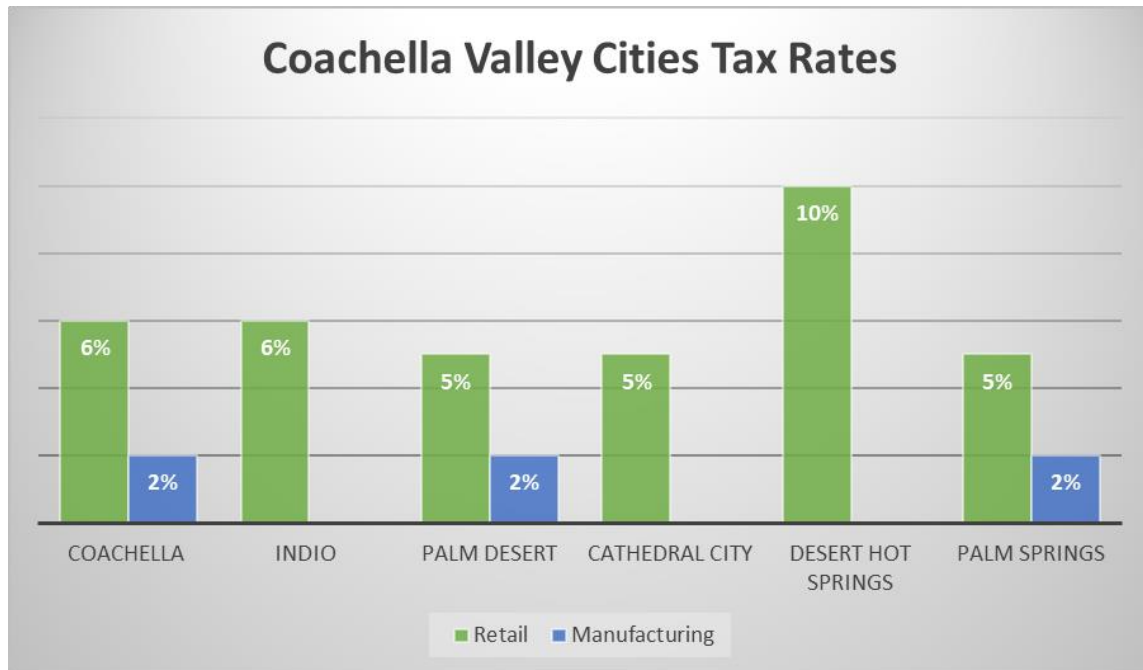
For the current Fiscal Year 2023-2024, the City has collected a total of \$844,837.00 in tax revenues as of March 31, 2024. The City expects to collect tax revenues for one more quarter this fiscal year. Table 2 displays the total amount of tax revenues the City has collected for all cannabis businesses since 2019.

Table 2: City of Coachella Tax Revenues (2019 – 2024)

	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24
Cultivation	\$10,477	\$1,229,184	\$669,246	\$551,597	\$226,390
Manufacturing	\$46,257	\$32,125	\$2,156	\$1,957	-
Distribution	-	\$75	\$21,418	-	-
Retail	\$384,228	\$636,130	\$684,349	\$535,086	\$618,447
	\$440,962	\$1,897,514	\$1,377,168	\$1,088,640	\$844,837

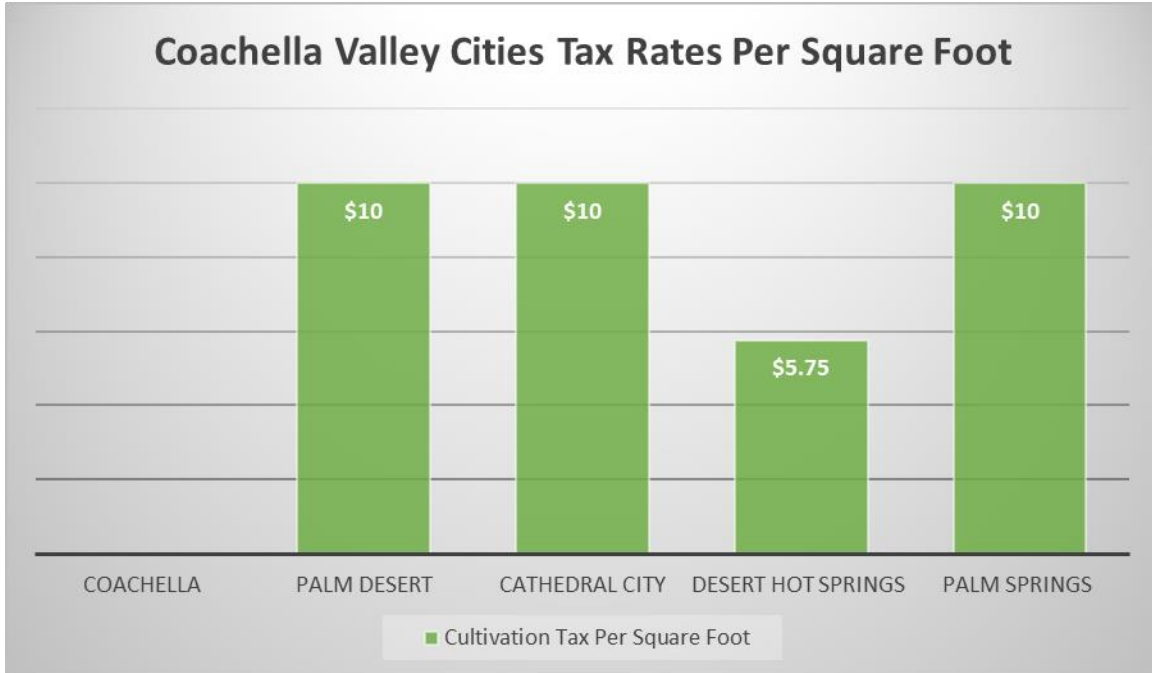
Neighboring Coachella Valley cities have also reassessed their cannabis tax rates. The City of Coachella’s retail tax rate is no longer the lowest in the Coachella Valley. Coachella is also the only city to charge cultivation tax as a percentage, while neighboring cities charge on a per sq. ft. basis. Tables 3 and 4 display cannabis tax rates in neighboring Coachella Valley incorporated cities compared to cannabis tax rates in the City of Coachella.

Table 3: Coachella Valley Tax Rates (Retail and Manufacturing)



*Cathedral City collects product-specific manufacturing taxes: \$0.05 per produced cannabis piece

Table 4: Coachella Valley Tax Rates (Cultivation)



*Coachella collects 3% of gross receipts for cultivation

Cannabis Program Compliance

This fiscal year, the Development Services Department has conducted seventeen (17) cannabis facility site visits to ensure compliance with the C.M.C. and Department of Cannabis Control regulations. Site visits are a CRP application and renewal requirement. Routine site visits have assisted staff in addressing concerns related to odor control, security, and standard operating procedures. Site visits have been helpful with maintaining up to date records of active cannabis businesses and maintaining active communication with current operators.

Cannabis Social Equity Program

The CSEP is dedicated to aiding individuals and businesses that were negatively impacted by cannabis criminalization during the war on drugs, allowing participants to gain entry in California's regulated cannabis marketplace and economy. An applicant is eligible for CSEP benefits if they have been convicted of a cannabis related crime between 1980 – 2016 and are low-income. The City has five (5) CSEP participants who have been social equity verified. These participants have received assistance with educational training, technical assistance, and grant funding. Two (2) CSEP participants operate dispensaries (Coachella Releaf and Coachella Greenery). One (1) CSEP participant is constructing their dispensary (Pueblo Cannabis), and two (2) other participants have received technical assistance and educational training on the cannabis industry and business management.

To enhance the City's CSEP, staff is working on conducting additional outreach and future informational events.

Cannabis Program Goals

The cannabis industry has faced challenges due to ongoing competition with the black market, local businesses not having enough power to perform cannabis activities, significant drops in the price of cannabis product, and market saturation. Regardless of these challenges, the industry continues to grow and various businesses have managed to stay afloat, adjusting to the changes and challenges of the industry. Staff has supported and continues to support local cannabis businesses. Staff is actively looking for ways to enhance the City's cannabis business program. Our goals are to increase the City's collection of tax revenue and foster better relationships with current operators. Staff plans to conduct informational and educational cannabis workshops for current and future operators as well as outreach events to promote growth in the City's cannabis industry.

FISCAL IMPACT:

None. This report is intended to provide an update on the City's Cannabis Business Program and report on the revenues to the City from the implementation of the program.