

From: Nancy Boesenberg <[REDACTED]>
Sent: Monday, June 20, 2022 4:35 PM
To: Council <Council@losgatosca.gov>
Subject: Vote NO on allowing marijuana dispensaries in Los Gatos.

EXTERNAL SENDER

Dear Council,

I oppose allowing marijuana dispensaries in Los Gatos. It is a déstructuré addictive drug that can ruin lives and destroys developing brains.

The non-scientific propaganda spewed by pro- marijuana activists is only to acquire revenue.

Please save Los Gatos but more importantly, save lives. Vote NO!

Thank you,

Nancy Boesenberg

Sent from my iPhone

From: Rob Gelphman <[REDACTED]>
Sent: Monday, June 20, 2022 6:01 PM
To: Council <Council@losgatosca.gov>; Town Manager <Manager@losgatosca.gov>
Subject: I SUPPORT A CANNABIS DISPENSARY IN LOS GATOS

EXTERNAL SENDER

Dear Los Gatos Town Council

I would like to express my support for the decision to allow Cannabis related businesses to operate locally. Adding tax revenue, providing safe access and eliminating the black market by allowing legitimate business seems like an obvious choice. Cannabis is not addictive and no one has died—ever—from an overdose of pot. There is no such thing. It is impossible. Yet we legalize alcohol, coffee and tobacco all of which are habit forming.

As to unfounded objections regarding the attraction of unsavory elements, that is pure nonsense. Have you ever been to a dispensary? Everyone there—customers and employees—is professional and well behaved. And of all age groups including seniors who are looking for some pain relief from worn out body parts without the addictive qualities of prescription drugs.

Cannabis is a growth industry, is not habit forming, employs lots of people and must fall into all state and local laws. Anyone who says different is uninformed and obviously biased, and thus rendered irrelevant.

The ancient Hebrews were using cannabis in their sacrificial and religious rituals more than two millennium ago. The Chinese were chronicling the medicinal value of marijuana two thousand years ago.

As City Council and Manager, you are obligated to follow the will of the people. Authorize a dispensary NOW.

Rob Gelphman

1-408- [REDACTED]
[REDACTED]

From: Christopher Lane <[REDACTED]>

Sent: Monday, June 20, 2022 12:19 PM

To: Council <Council@losgatosca.gov>; Town Manager <Manager@losgatosca.gov>

Subject: Cannabis Retail on June 21st, Thank You for Your Engagement

EXTERNAL SENDER

Hi Council,

Chris Lane, CMO of Airfield Supply Company here, thanks for all of your conversations. I have had the chance to speak with many of you over the last several months and just wanted to briefly write a note prior to the June 21st meeting to summarize a few key points that have come up during our discussion in your process.

First, there seems to be a pervasive theme developing of wanting to understand the costs. I had a chance to read the staff report and HDL work on the topic and while it's mentioned in there, it's worth clarifying that in basically all cases the retailers cover the cost of a program. Between annual fees and supplementary items, it's a pretty cut and dry situation. We even reached out to San Jose, the most relevant geographic and household income municipality to offer their conversation with their Cannabis Regulatory Program, who are more than happy to meet with you as we have mentioned to explain cost recovery.

Second, youth influence, diversion or access seems to be a major topic of concern in town. This is completely understandable and frankly refreshing to hear how much focus on youth there is, but just as a reminder - cannabis is for adults and everything that happens around it should be targeted to only adults. There are laws on where a retail store could be safely located, what a retail could look like, where it could advertise, how it is secured and monitored and every other aspect. Cannabis retail is as uninterested in youth as the town is, and works hard to not appeal to anyone under the age as we completely agree that it isn't appropriate. As an Airfield anecdote, we can't tell you how many people

live and work in the area for years and often say on their first visit that they never knew what that retail location was until they researched finding one. It's not an accident.

Third, general operational insight seems like something that the community could do well for more insight on and conversation around. From customer traffic to how products are licensed and approved to cash handling and storage, we have had many questions that are important to understand how this really is just like most other businesses in town. That being said, regulation means more planning, and every retailer takes this just as seriously as you do to ensure successful operations. Opening up retail means the chance to find the best operator that fits Los Gatos perfectly, and it's important to not forget Council's vital role in a process like that if it was to move forward at some time.

As we have reiterated many times, Airfield views Los Gatos as something of our emotional home. Many of us have families here, friends made here and futures to plan here. This is a place for long term decisions and lifelong commitments to the best for this town, this decision should be viewed no different simply because it's "new" to many. From learning more about security, safety, or youth prevention to economic impact, community engagement and retail operations - it doesn't go without saying that there is usually a merited answer for most questions and concerns. It often just takes asking the question.

In closing, I just want to commend the Council's willingness and leadership to show interest, ask questions, raise concerns and learn from the industry and local businesses. We have had the chance to tour some members, speak with others and even help with community events where town staff and council have attended. In all cases, there feels to be a true sense of fact finding and a quest for knowledge that shows commitment to finding the right answer for Los Gatos, whatever that is.

Best,

Chris Lane

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Chris Lane

CMO

Airfield Supply Company

Phone: 408-[REDACTED]

From: Karen Mautich <[REDACTED]>
Sent: Monday, June 20, 2022 11:01 AM
To: Council <Council@losgatosca.gov>; Town Manager <Manager@losgatosca.gov>
Subject: We support cannabis retail

EXTERNAL SENDER

Hi Town Council,

My name is Karen Matulich and my husband Paul and I have been residents of Los Gatos since 1978 and owned Steamer's Grillhouse in Los Gatos since 1979. We raised our two children in Los Gatos, have been in the business community for over four decades and we strongly support opening up cannabis retail in Los Gatos.

As you likely know, my son founded Airfield Supply Company in 2010, and over the last twelve years has created a business that has employed hundreds, if not thousands of individuals - many of them Los Gatos residents - contributed tens of millions in tax revenue to San Jose and engaged in countless community service activities. While this decision is not about what - or even if right away a store could open - I am compelled to say that our family knows Los Gatos better than most and knows that cannabis retail would never disrupt a town. Retailers are modern, secure, positively-community engaged and offer significant career opportunities.

I can't tell you how many people have told me their stories about the positive impact cannabis has had for them, be it for sleep, relaxation, pain management, stress relief or others. It is a substance for adults, and it needs proper engagement, frameworks and discussion. Our town needs education and honesty about the world today and how to best create a community around it that we can all be proud of, not to bury our heads in the sand and hope it doesn't exist. Let's improve our parks, roads, and city with something people already spend money on and we get no benefit from as of now.

Please move forward and let's continue to make a Los Gatos we are all proud to live in.

Best,

Karen and Paul Matulich

From: Phil Koen <[REDACTED]>
Sent: Tuesday, June 21, 2022 8:02 AM

To: Rob Rennie <RRennie@losgatosca.gov>; Matthew Hudes <MHudes@losgatosca.gov>; Mary Badame <MBadame@losgatosca.gov>; Marico Sayoc <MSayoc@losgatosca.gov>; Maria Ristow <MRistow@losgatosca.gov>; Shelley Neis <sneis@losgatosca.gov>
Cc: [REDACTED]; Rick Van Hoesen ([REDACTED]) <[REDACTED]>; Lee Fagot <[REDACTED]>; Laurel Prevetti <LPrevetti@losgatosca.gov>; Arn Andrews <aandrews@losgatosca.gov>
Subject: HDL Analysis - Agenda Item #23

EXTERNAL SENDER

Dear Honorable Mayor and Town Council Members,

I am pleased the Staff has recommended continuing the ban on store front cannabis retail sales. I believe this is the correct answer especially after doing a realistic analysis of potential retail tax revenue less all costs that potentially could be incurred by the Town for additional safety and administration personnel resulting from store front sales of cannabis. **It is highly probable that on a net revenue basis retail sales of cannabis would be financially breakeven at best and more likely than not generate a net revenue loss.** I arrive at this conclusion using a more likely tax revenue estimate of \$264,000 and assuming that at least two additional sworn police officers and 1 administration headcount will be needed to support the retail program. Unfortunately, the HdL analysis does not include a financial feasibility study and only focused on projecting potential revenue and tax collection projections. This represented only one half of the required analysis.

I want to point out there are obvious errors and questionable assumptions in the HDL revenue projection. It is necessary that the Town Council have the benefit of a different perspective during your deliberation. HdL's business model depends on local jurisdictions allowing retail sales of cannabis. The firm makes substantial money on providing additional consulting services including drafting regulations, cannabis compliance, policy development, etc. It is in their best interest that every local jurisdiction in the State allow retail cannabis sales. What could possibly go wrong with a revenue forecast prepared by HdL? I can think of no better advocate for allowing retail cannabis sales than HdL.

1. The numbers reported by the State for Santa Clara County per capita retail sales of cannabis for Q1 2022 were \$24.13. per capita (see attached). Per capita sale is the best number to use in forecasting cannabis retail sales since it avoids introducing a forecasting error driven by estimating the percentage of the population that uses cannabis. For the State of California, it is widely reported that the 13.5% of the population has used cannabis within the past month. Obviously, that can change at the local jurisdiction level but there are no good reporting mechanisms to capture local percentage usage rates. \$24.13 per capita for Q1 2022 compares to

\$29.26 for the same quarter last year. **This represents a 17.5% decrease in per capita sales year over year.** If you annualize Q1 2022 actual, the projected per capita retail sales would be \$96.52. The HdL report stated that the sales per capita for Santa Clara County (1.9m population) over the last 12 months was \$114 person. Using the more recent data, total annual sales for 2022 in Santa Clara County would be approximately \$183m as compared to HdL's reported number of \$220 million. That is a material reduction which is not reported in the HdL study. The analysis should at least reflect the most recent actual results.

2. Why isn't the most likely answer for projected retail sales in Los Gatos simply \$96.52 (most recent per capita sales based on Santa Clara County actuals) x 33,529 (Los Gatos population) which yields \$3.3m total sales? Applying a 4% tax rate, the projected tax revenue for the Town would be only \$129,450. This seems to be the most reasonable forecast based on actual data. The HdL **"best"** estimate is \$16m in sales and using a 4% tax rate, the projected tax revenue would be \$641,332. By using a per capital methodology in forecasting total sales, one avoids having to make numerous assumptions (most of which have no factual data to support the assumption), which introduce forecasting error and bias. For example, assumptions regarding average transaction amount (\$73), transaction frequency (2x per month), leakage to black market (50%) and leakage to other licensed retailers (20%) can all be avoided. Each of these individual assumptions in the HdL analysis has a wide distribution of various outcomes at the local jurisdiction level. As a result, the summation of all forecasting errors makes the "most" likely estimate a very poor predictor of actual results because of the wide variation of possible outcomes. A good analogy is having one hand in boiling water and another hand in a bucket of ice water. The average is fine, but you can't say the same about each hand!
3. To believe the HdL revenue forecast of \$16,033,046 for Los Gatos, you have to also believe that for every local Los Gatos resident that purchases cannabis at a local store front, there are 7 individuals living outside of Los Gatos, driving to the Los Gatos to make a purchase. Please reflect on that – 7 driving from outside the Town to purchase. Is that good public policy for the Town and does it even pass the reasonableness test since presumably these individuals are already buying cannabis at an existing retail store front? Here is the supporting math - based on 13% of the population using cannabis that means there are 4,358 local individuals purchasing at retail stores. The HdL analysis is based on an unsupported assumption that the total cannabis user base served by Los Gatos is 30,504 buying locally. The additional 26,146 are coming from outside the Town and this assumption drives the vast majority of the estimated revenue for the Town. Unfortunately, the HdL analysis offers no supporting data that would serve as substantiating evidence. What if that number is only 4,358, which means for every local purchase there is only one purchase from the surrounding area? The revenue projection would be \$6.6m and not \$16m. \$6.6m in total sales will generate using a 4% tax rate \$264,000.

In closing, the HdL analysis is extremely problematic. It would be interesting to ask HdL if they have actual tax revenue collection data for a local jurisdiction that is similar in size and socio-economic make up as the Town. Since this was not included in their report, I am assuming they don't have the data. What we do know, there is a common theme around forecasting tax revenues vs. actual outcomes. Many local jurisdictions are now discovering (and this includes the State) that the cannabis tax revenue projections were widely optimistic and actual results were materially less.

There are other errors in the analysis such as, the leakage to licensed retailers claims to be 30% in the schedule, but the math indicates it is only 20%. The estimate leakage to the black-market claims to be 30% but the math suggests it is 50%. If HdL is to be believed, the average transaction amount of \$73 per person and \$16m in sales equates to 219,630 transactions per year – the vast majority originating from individuals living outside of Los Gatos. That is a ton of cars coming into the Town to purchase cannabis.

The Town Council started down this path based on the assumption that allowing retain storefront sales would be a good fiscal decision. There has been no objective data that supports this will actually happen and more likely than not will be fiscally negative. Given this lack of data, the Staff has reached the prudent and correct decision, which is to continue the ban of retail cannabis sales. Please support the Staff's recommendation.

Thank you.



Cannabis Sales by County

Santa Clara



Charts API

Export to Excel Export to CSV

County ▾	Calendar Year ▾	Quarter ▾	Per Capita Sales ▾	Total Taxable Sales ▾
Santa Clara	2018	4	\$22.06	\$42,892,311
Santa Clara	2019	1	\$22.09	\$42,965,821
Santa Clara	2019	2	\$24.25	\$47,177,526
Santa Clara	2019	3	\$25.34	\$49,291,979
Santa Clara	2019	4	\$24.20	\$47,068,983
Santa Clara	2020	1	\$24.57	\$47,578,355
Santa Clara	2020	2	\$24.51	\$47,464,429
Santa Clara	2020	3	\$27.69	\$53,629,675
Santa Clara	2020	4	\$28.20	\$54,613,172
Santa Clara	2021	1	\$29.26	\$55,830,547
Santa Clara	2021	2	\$29.97	\$57,189,187
Santa Clara	2021	3	\$28.34	\$54,079,418
Santa Clara	2021	4	\$27.81	\$53,061,041
Santa Clara	2022	1	\$24.13	\$45,724,961
Santa Barbara	2018	2	\$11.84	\$5,321,003

August 6, 2020

Analysis of Cannabis Market in California and Case Study Cities

Prepared by:

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ANALYSIS OF CALIFORNIA CANNABIS MARKET

INTRODUCTION

On November 6, 2016, voters in California passed Proposition 64, the Adult Use of Marijuana Act ("AUMA"). The initiative legalized recreational cannabis in the state and provided a broad framework from which cannabis businesses would be licensed, taxed, and regulated.

Since its adoption, the legal cannabis market in California has grown steadily and currently supports over \$2 billion in legal sales. Between 2018 and 2019, taxable cannabis sales increased by 62 percent. In addition to direct cannabis sales, the retail cannabis industry in California also generates taxable revenues from accessories and point-of-sale items that increase the overall retail sales associated with cannabis sales to about \$2.7 billion.

While these represent positive signs that the uptake for legal cannabis has created an emerging industry in California with the potential to generate significant employment opportunities and revenue to the State, comparisons with other states indicate that California's legal cannabis market continues to underperform by a wide margin.

The implementation of Proposition 64 has seen inconsistencies between different jurisdictions. These inconsistencies range from land use regulations to tax rate and licensing procedures. While some jurisdictions have proactively sought to attract and develop local cannabis businesses, others have taken steps to block cannabis businesses from opening. Because retail cannabis licensing and sales still fall short of potential consumer demand, the illicit cannabis market continues to meet a large majority of this demand.

This study will provide some context to the current status of California's legal cannabis market. The report compiles together the updated revenue and market information about the legal adult use cannabis market in California, and benchmarks it against other states that also have legal cannabis markets. In addition, the study includes case studies for three different California jurisdictions that identify the market potential for legal cannabis and local tax revenues for those jurisdictions.

CALIFORNIA CANNABIS MARKET FINDINGS

The state of the California cannabis market has shown decidedly mixed results. As the state moves forward with implementation of Proposition 64, the Adult Use of Marijuana Act of 2016 ("AUMA"), California sees growing legal cannabis sales, but also difficulties with sales and tax revenues that fall well short of projections.

EXISTING CONDITIONS

According to a 2019 study by Arcview Market Research and BDS Analytics, California's projected annual recreational cannabis sales totaled \$3.1 billion (CDTFA estimates taxable sales of \$2.1 billion

for calendar year 2019). The study also found that the illicit market comprised \$8.7 billion in annual sales, or roughly three-fourths of the total cannabis market.¹

Moving forward, the Arcview/BDS study also projected that through 2024, the legal cannabis market will grow at a compounded annual growth rate (CAGR) of 18.4 percent, and displace a significant portion of the current illicit cannabis sales. By 2024, the study projects that legal cannabis sales will increase to \$7.2 billion annually, while illicit sales will decline to \$6.4 billion.

According to data from CDTFA, California's taxable retail cannabis sales totaled \$2.1 billion in 2019. This represents a 62 percent increase from the \$1.2 billion in retail cannabis sales in 2018.² As shown in Table 1, the total number of active cannabis retailers also increased from 824 to 980 retail licensees.³ When also including microbusinesses and delivery services, the number of licensees increased from 1,192 to 1,405 businesses.

TABLE 1: SUMMARY OF CALIFORNIA RETAIL CANNABIS PER CAPITA SALES AND AVERAGE SALES PER RETAILER

YEAR	TAXABLE RETAIL CANNABIS SALES	TAXABLE CANNABIS SALES PER CAPITA	CANNABIS RETAILERS (LOW)	CANNABIS RETAILERS (HIGH)	TAXABLE SALES PER RETAILER (LOW)	TAXABLE SALES PER RETAILER (HIGH)
2018	\$1,274,666,667	\$32.01	834	1,192	\$1,069,351	\$1,528,377
2019	\$2,068,666,667	\$51.77	980	1,405	\$1,472,361	\$2,110,884

Source: ADE, Inc.; data from CDTFA, California Department of Finance, and California Bureau of Cannabis Control.

Notes: The low cannabis retailer count only includes retail licensees, while the high count adds microbusinesses and delivery services. The number of licensees reflects those cannabis businesses operating as of July 2020 that began operations prior to the end of 2019.

CANNABIS TAX RECEIPTS

The primary cannabis revenues to the state come from specific taxes, which are levied at different rates.

CANNABIS TAX RATES

Excise Tax

The excise tax for cannabis uses a standard 15 percent rate specified in the approved Proposition 64. This applies to all taxable retail cannabis transactions based on the average market price.

1 Arcview Market Research and BDS Analytics; *California: Lessons From The World's Largest Cannabis Market*; June 2019.

2 This figure is based on the statewide 15% excise tax rate for taxable cannabis sales. The 2019 figure for taxable sales by cannabis retailers was \$2.7 billion, which also includes non-cannabis taxable sales.

3 In order to keep the retailer count consistent with the taxable sales total, the active cannabis retailer total does not include any licenses approved after December 31, 2019.

Sales Tax

Sales taxes will vary by jurisdiction. The standard allocations for sales taxes begin with a statewide base rate of 7.25 percent.⁴ This follows the formula established under the Bradley-Burns Uniform Sales and Use Tax Law, which allocates sales taxes as follows:

- 6.0 percent to the State
- 1.0 percent to the local jurisdiction for the point of sale (City or County)
- 0.25 percent to the local County transportation fund for the point of sale

Additional local taxes for special districts can be levied as well. These district taxes can range from 0.1 to 1.0 percent, and a specific location can have multiple districts. The highest sales tax rates in California are 10.25 and 10.5 percent, which occur in portions of Los Angeles County.

Cultivation Tax

The cultivation tax is levied on harvested cannabis that enters the commercial market. The current rates are based on weight, and will range from \$1.35 to \$9.65 per ounce and depend on whether the cannabis is a fresh flower or dry flower or dry leaf.⁵

EXISTING CANNABIS TAX RECEIPTS

As shown in Table 2, California saw a marked increase in legal cannabis sales in 2019. The cannabis taxes in California are highly variable by jurisdiction, as is the availability of legal cannabis, as many jurisdictions have yet to enable cannabis retailers to operate within their boundaries. In calendar year 2019, California collected a total of \$635.3 million in cannabis-related taxes, as shown in Table 3. This does not include local taxes enacted at the city and county level.

TABLE 2: CALIFORNIA CANNABIS TAX RECEIPTS, 2018 AND 2019

YEAR	EXCISE TAX	CULTIVATION TAX	SALES TAX	TOTAL TAX
2018	\$191,200,000	\$36,700,000	\$168,600,000	\$396,800,000
2019	\$310,300,000	\$87,000,000	\$238,000,000	\$635,300,000

Source: CDTFA

COMPARISON OF STATE CANNABIS BENCHMARKS

In benchmarking California's legal cannabis sales performance against other states that have legalized recreational cannabis sales, the state generally does not fare well. As shown in Table 3, California's per capita taxable cannabis sales of \$51.77 in 2019 is less than half the per capita sales in Washington, Oregon, and Colorado. California's per capita legal cannabis sales is comparable to Massachusetts. However, 2019 was also Massachusetts' first full year of legal recreational cannabis sales.

⁴ <https://www.cdtfa.ca.gov/taxes-and-fees/local-and-district-taxes.htm>

⁵ <https://www.cdtfa.ca.gov/taxes-and-fees/tax-rates-stfd.htm>

By comparison, California's average taxable sales per retailer of \$2.1 million is comparable to the average sales in Colorado and Washington.

TABLE 3: COMPARISON OF CALIFORNIA PER CAPITA AND PER RETAILER CANNABIS SALES WITH OTHER STATES

STATE	CANNABIS SALES PER CAPITA	AVERAGE CANNABIS SALES PER RETAILER
California	\$51.77	\$2,110,884
Colorado	\$244.28	\$2,349,171
Massachusetts	\$57.13	\$4,023,808
Oregon	\$160.95	\$1,031,550
Washington	\$140.18	\$2,030,399

Source: ADE, Inc.; data from CDTFA, California Department of Finance, California Bureau of Cannabis Control, Colorado Department of Revenue, Colorado State Demography Office, Massachusetts Cannabis Control Commission, Massachusetts State Data Center, Oregon Department of Revenue, Oregon Liquor Control Commission, PSU Population Research Center, Washington State Liquor and Cannabis Board, and Washington Office of Financial Management, Forecasting and Research Division.

CANNABIS DEMAND IN CALIFORNIA

Table 4 shows the benchmarks for cannabis demand in California. Applying the ratio of legal to illegal cannabis sales from the Arcview/BDS study, California's existing \$2.1 billion in legal taxable cannabis sales would yield a total addressable cannabis market (legal and illegal sales) of about \$7.8 billion. Legal sales make up about 23% of the total adult use cannabis market in California (not including medicinal cannabis).

In order to estimate the legal cannabis demand in California, the analysis used a range of potential outcomes. Because of California's existing per capita taxable cannabis sales ranks far behind other states with legalized adult use cannabis sales, the low cannabis demand scenario uses the existing sales in California as the benchmark.

The high cannabis demand scenario uses the per capita taxable cannabis sales in Colorado to illustrate the size of the California market if it can achieve the same magnitude of legal sales. Colorado was the first state in the U.S. to legalize recreational cannabis sales, so it represents a mature market scenario. Using these two scenarios, the size of the legal cannabis market in California ranges from \$2.1 billion to \$9.8 billion.

The Arcview/BDS study projects that total adult use cannabis sales will grow at an annual rate of about 2.9 percent, while legal cannabis will grow at a rate of 18.4 percent. The difference between the growth rates is offset by a projected 6.0 percent annual loss of illegal cannabis sales. Using these growth rates, the potential legal cannabis demand in California by 2024 would grow to \$4.8 billion, with an overall market of \$9.1 billion when accounting for both legal and illegal cannabis sales.

TABLE 4: LEGAL CANNABIS DEMAND BENCHMARKS FOR CALIFORNIA

Existing California Benchmarks	
Population (2019)	39,959,095
Legal Cannabis Demand (Low)	\$2,068,666,667
Legal Cannabis Demand (High)	\$9,761,281,019
Existing Retailers	980
Existing Retailers (including microbusinesses)	1,405
Total Addressable Cannabis Market (Legal and Illegal Sales)	\$7,874,279,570
2024 California Projection	
Legal Cannabis Demand (Arcview/BDS Growth Projection)	\$4,804,645,161
Total Addressable Cannabis Market (Legal and Illegal Sales)	\$9,075,440,860

Source: ADE, Inc.; data from Arcview Market Research/BDS Analytics, CDTFA, California Department of Finance, California Bureau of Cannabis Control, Colorado Department of Revenue, Colorado State Demography Office.

Notes: The low cannabis demand scenario is based on the per capita taxable cannabis sales in California through the 15% statewide excise tax. The high cannabis demand scenario is based on the per capital taxable cannabis sales in Colorado, which their Department of Revenue reports directly.

CASE STUDIES

INTRODUCTION

In order to provide some local context, the analysis also included case studies of three different jurisdictions in California – Stockton, San Bruno, and unincorporated Sacramento County. These communities are each in different stages of approval/disapproval for cannabis businesses. But, none of them currently have a significant base of cannabis retailers. So, the revenue and business formation potential within these communities should be considered a potential net gain in economic activity for those jurisdictions.

The case studies are intended to illustrate the degree of market support for cannabis businesses in these communities, and the local tax revenue potential if local legal cannabis establishments can meet this market demand. It should be noted that at least some portion of the existing cannabis demand is likely met by legal cannabis establishments operating in other communities. The remainder of the market demand is likely met through illegal cannabis sales.

LOCAL CANNABIS TAXES

Under Proposition 64, cities and counties are allowed to collect their own taxes on cannabis. These tax revenues stay with the local jurisdiction. The local cannabis taxes have also seen very wide ranging outcomes of cannabis legalization. Communities throughout California have enacted tax measures that establish local cannabis tax rates, most of which go through initiatives voted on by local residents. Even for communities that have made no provisions to allow retail cannabis businesses, the tax measures were presented to the voters in order to have the mechanisms in place in the eventuality that cannabis retailers are allowed.

Typically, a local cannabis tax measure will specify a maximum cannabis tax rate, and set an initial tax rate lower than the maximum. In other cases, the initial rate is set by the City Council or Board of Supervisors. Other communities might charge development fees instead of or in addition to the local cannabis taxes.

In addition to cannabis sales, retail cannabis businesses also generate sales from other non-cannabis items, such as smoking accessories and related products. While they do not generate cannabis taxes, these additional retail transactions further increase the sales tax revenues that local and state governments can potentially collect.

STOCKTON CASE STUDY

The City of Stockton has a recently enacted system for issuing cannabis licenses. Their setup entails issuing cannabis licenses with a lottery system. Two licenses are issued in each of four different business categories: microbusiness, retail, manufacturing, and cultivation. This program began in 2019, and the 2020 license lottery was set to take place in June. Stockton has enacted a local cannabis tax rate of 5%.

As shown in Table 5, the market demand for legal taxable cannabis in Stockton ranges from a low of \$16.5 million (based on the existing per capita taxable cannabis sales in California) to a high of \$77.8 million (based on existing per capita taxable cannabis sales in Colorado).

The total addressable cannabis market in Stockton (combined legal and illegal cannabis sales) is currently about \$62.8 million.

TABLE 5: LEGAL CANNABIS DEMAND AND POTENTIAL RETAIL SUPPORT IN CITY OF STOCKTON

STOCKTON CASE STUDY	
1. Population (2020)	318,522
2a. Legal Cannabis Demand (Low)	\$16,489,759
2b. Legal Cannabis Demand (High)	\$77,809,138
3a. Supportable Retailers (Low)	7.8
3b. Supportable Retailers (High)	36.9
4. Currently Allowed Retailers (2019 and 2020 License Lottery)	4
5a. Local Tax Potential (Low Based on 5% rate)	\$824,488
5b. Local Tax Potential (High Based on 5% rate)	\$3,890,457
6. Current Addressable Cannabis Market (Legal and Illegal Sales)	\$62,767,470

Source: ADE, Inc.; data from Arcview Market Research/BDS Analytics, CDTFA, California Department of Finance, California Bureau of Cannabis Control, Colorado Department of Revenue, Colorado State Demography Office.

Notes: The low cannabis demand scenario is based on the per capita taxable cannabis sales in California through the 15% statewide excise tax. The high cannabis demand scenario is based on the per capital taxable cannabis sales in Colorado, which their Department of Revenue reports directly.

The number of supportable legal cannabis retailers will range from about 7.8 to 36.9 establishments. This is a conservative estimate because it uses the taxable sales per retailer average for California. It should be further noted that this benchmark average does not include microbusinesses. Using the benchmark average that includes microbusinesses in the total, the number of supportable establishments increases to 52.8.

Local tax potential for the City of Stockton, based on its existing local cannabis tax rate of 5%, ranges from about \$824,500 to \$3.9 million annually.

SAN BRUNO CASE STUDY

The City of San Bruno is an untapped cannabis market with no existing cannabis retailers operating within the city limits. Even though San Bruno has no framework in place for licensing or permitting retail cannabis establishments, the community has taken initial steps towards the eventuality that legal cannabis retailers do open for business in San Bruno at a future date. On June 29, 2020, the San Bruno City Council passed a resolution to include a ballot measure for the fall election that sets a local cannabis tax of 10%. The measure does not include any provisions for approving or licensing cannabis businesses in San Bruno.

As shown in Table 6, market demand for legal taxable cannabis in San Bruno ranges from \$2.4 million (based on existing California per capita taxable cannabis sales) to \$11.1 million (based on existing Colorado per capita taxable cannabis sales). The total addressable cannabis market for San Bruno is \$9.0 million when combining existing legal and illegal cannabis demand.

The supportable number of legal cannabis retailers will range from 1.1 to 5.3 establishments, based on existing average cannabis retail establishment sales in California. Using the lower benchmark average sales per establishment that accounts for microbusinesses would increase the high range of supportable establishments to 7.5.

The local tax potential for the City of San Bruno ranges from about \$235,300 to \$1.1 million. This assumes that the fall ballot measure passes and establishes a local cannabis tax rate of 10%.

TABLE 6: LEGAL CANNABIS DEMAND AND POTENTIAL RETAIL SUPPORT IN CITY OF SAN BRUNO
SAN BRUNO CASE STUDY

1. Population (2020)	45,454
2a. Legal Cannabis Demand (Low)	\$2,353,136
2b. Legal Cannabis Demand (High)	\$11,103,586
3a. Supportable Retailers (Low)	1.1
3b. Supportable Retailers (High)	5.3
4. Currently Allowed Retailers	0
5a. Local Tax Potential (Low Based on 10% rate)	\$235,314
5b. Local Tax Potential (High Based on 10% rate)	\$1,110,359
6. Current Addressable Cannabis Market (Legal and Illegal Sales)	\$8,957,097

Source: ADE, Inc.; data from Arcview Market Research/BDS Analytics, CDTFA, California Department of Finance, California Bureau of Cannabis Control, Colorado Department of Revenue, Colorado State Demography Office.

UNINCORPORATED SACRAMENTO COUNTY CANNABIS MARKET

The unincorporated area of Sacramento County represents the most restrictive of the three case study communities. Even though some local jurisdictions in Sacramento County, including the City of Sacramento, have provisions for licensing and collecting taxes from cannabis retailers, the County itself does not currently allow cannabis-related businesses of any kind in the unincorporated areas. The County also has not taken the step of setting a local tax rate or establishing a framework from which cannabis businesses can eventually operate within the unincorporated areas.

As shown in Table 7, the market demand for legal taxable cannabis in unincorporated Sacramento County ranges from a low of \$30.7 million (based on the existing per capita taxable cannabis sales in

California) to a high of \$145.1 million (based on existing per capita taxable cannabis sales in Colorado). The total addressable cannabis market in unincorporated Sacramento County (combined legal and illegal cannabis sales) is about \$117.0 million (based data from the Arcview/BDS study).

**TABLE 7: LEGAL CANNABIS DEMAND AND POTENTIAL RETAIL SUPPORT IN SACRAMENTO COUNTY
(UNINCORPORATED AREAS ONLY)**

SACRAMENTO COUNTY (UNINCORPORATED) CASE STUDY	
Population (2020)	593,801
Legal Cannabis Demand (Low)	\$30,740,845
Legal Cannabis Demand (High)	\$145,054,797
Supportable Retailers (Low)	14.6
Supportable Retailers (High)	68.7
Existing Cannabis Businesses and Dispensaries	0
Local Tax Potential (Low Based on 4% rate)	\$1,229,634
Local Tax Potential (High Based on 4% rate)	\$5,802,192
Total Addressable Cannabis Market (Legal and Illegal Sales)	\$117,013,538

Source: ADE, Inc.; data from Arcview Market Research/BDS Analytics, CDTFA, California Department of Finance, California Bureau of Cannabis Control, Colorado Department of Revenue, Colorado State Demography Office.

The number of supportable legal cannabis retailers will range from about 14.6 to 68.7 establishments. Using the more lenient benchmark average that includes microbusinesses, the number of supportable establishments increases to a high of 98.5.

Using the City of Sacramento's local tax rate of 4% as an assumption, the local tax potential for unincorporated Sacramento County ranges from \$1.2 million to \$5.8 million annually.

CONCLUSION

Based on our independent and objective analysis, cannabis businesses show significant market potential for additional legal sales throughout California. This would result in substantial increases in tax receipts for state and local governments if the number of retail cannabis establishments expands to meet local demand in those communities that do not currently have legal retail cannabis sales. Because of the state's underperforming retail cannabis market, the range of potential market support has significant upside. The market demand already exists, with most of the demand currently met through illicit sales channels that generate no tax revenues. As local governments struggle with meeting their budget needs and providing essential services to their residents, legal cannabis sales represent a source of revenue that has remained untapped by most California jurisdictions.

APPENDIX B: METHODOLOGY

ASSUMPTIONS AND METHODOLOGY

- The existing cannabis retail establishments and taxable sales came from the Bureau of Cannabis Control (“BCC”). The number of retail establishments includes a combination of storefront businesses, no storefront retailers, and temporary retailers. The higher number of existing cannabis businesses includes microbusinesses and delivery services that could potentially generate retail sales, even though their revenues also came from other sources.
- The breakdown of tax collections came from the BCC quarterly press releases.
- The California projection of future cannabis demand through 2024 is based on the growth rates projected in the 2019 study by Arcview Market Research and BDS Analytics. These growth rates were applied to the estimated legal cannabis sales that were calculated using the excise tax data from the California Department of Tax and Fee Administration (CDTFA).

CASE STUDY METHODOLOGY

The case study benchmarks correspond to the numbered lines on the tables for the three case studies.

- 1. Population: The population figure comes from the California Department of Finance. The per capita benchmark for California was calculated based on the 2019 population and the 2019 taxable sales figures. For the individual jurisdictions in the case studies, the analysis is based on the population estimate for January 1, 2020.
- 2a. Cannabis Demand (Low): The legal cannabis demand assumes a range with the existing cannabis demand representing the low estimate. The existing cannabis demand is based on CDTFA excise tax collections in 2019. Applying the 15% excise tax rate, the resulting estimate of \$2.1 billion in taxable sales was divided by the state population in January 2019. The resulting benchmark comes out to \$51.77 in taxable legal cannabis demand per capita.
- 2b. Cannabis Demand (High): The high cannabis demand uses Colorado as the benchmark. The Colorado Department of Revenue separately tracks medicinal and adult use (taxable) cannabis sales. This data is very useful because it does not just report the tax revenues, but the actual cannabis sales. The taxable sales total was divided by the 2019 Colorado state population as reported by the Colorado State Demography Office to produce the benchmark of \$244.28 in taxable cannabis sales per capita. Because it is the most mature adult use cannabis market in the country, Colorado was considered more representative of what a market area in California can potentially support once it reaches a more stable and mature state. However, it should be noted that the Colorado has continued to grow at a high rate since recreational cannabis sales started in 2014. The use of the Colorado benchmark as a high cannabis demand benchmark does not account for illegal cannabis demand that might remain in the Colorado market.

- 3a and b. **Supportable Retailers**: The number of supportable retailers comes from the average sales per retail cannabis license in California. The benchmark average divides the total taxable cannabis sales reported by CDTFA into the total number of retail cannabis licenses in California. The retail license total comes from the California Bureau of Cannabis Control database. Licenses added after December 31, 2019 were not included in the total, and the license inventory also does not account for any retailers that might have closed in 2020. The low estimate of supportable retailers is based on the existing estimated legal cannabis demand, while the high estimate is based on the demand using the higher Colorado per capita cannabis sales benchmark. The number of supportable cannabis retailers can further increase by adding microbusinesses to the retail cannabis licensee count.
- 4. **Currently Allowed Retailers**: The number of allowed cannabis businesses is based on local laws and licensing procedures. For Stockton, their cannabis license lottery allows two retail licenses annually, and the first lottery occurred in 2019 with a second lottery concluding in June 2020. San Bruno and Sacramento County currently do not allow cannabis establishments.
- 5. **Local Tax Potential**: This figure is based on the local tax revenues that the case study jurisdictions would collect if the legal cannabis demand translates into actual local sales. The tax rates are based on what the local jurisdictions currently allow (or in the case of San Bruno, have proposed in a ballot measure).
- 6. **Current Addressable Cannabis Market**: Multiple publications assume that the majority of adult use cannabis currently comes through illegal sales. The figure used for this estimate comes from the 2019 study by Arcview/BDS. The study estimated that legal cannabis sales in California would total \$3.1 billion in California, and make up about 23 percent of the total recreational cannabis sales. This percentage share is applied to the existing legal cannabis demand to come up with the total addressable cannabis market demand. This represents a combination of legal and illegal sales.

From: Phil Barry <[REDACTED]>
Sent: Monday, June 20, 2022 11:06 AM
To: Council <Council@losgatosca.gov>
Subject: Cannabis dispensaries

EXTERNAL SENDER

Los Gatos Town Council,

I am in favor of cannabis dispensaries in town. I moved to Los Gatos in 1966 and have been active in the town and with the schools.

It seems to me that the town is struggling financially with no clear way to solve the problem other than increasing taxes and fees. Cannabis dispensaries would provide a consistent and meaningful tax revenue that would not have to come out of the taxpayers' pocket.

Most of the opposition feedback that I have heard is of the dog whistle variety including egregious misstatements of facts to fit their narrative. I am shocked that special interest groups continue to influence our local politics.

My request is that all 32,000 residents have a voice. Please put this measure on the ballot so that we can all have a voice in our future. Isn't that what democracy is all about??

Phil Barry
[REDACTED] Winchester Circle
Los Gatos

From: Kathy Bays <[REDACTED]>
Sent: Tuesday, June 21, 2022 10:00 AM
To: Council <Council@losgatosca.gov>
Subject: Dispensary vote

EXTERNAL SENDER

Please do not allow dispensaries in our town. Thanks, Kathy Bays Sent from my iPhone.