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# FISCAL IMPACT OF CANNABIS REGULATION IN CALAVERAS COUNTY

May 8, 2017

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## 1. Introduction

The choice to ban or regulate commercial cannabis activity is a topic of heated current debate in Calaveras County. This analysis examines one of the key issues in the debate: the fiscal impacts on the County budget. Either choice, ban or regulate, would have significant effects on the County's costs and revenues. Licensing and regulating the cannabis industry has the potential to bring large new revenue streams into the County, but would also bring new enforcement and indirect costs. The fiscal analysis must be considered in the context of a County budget that is in a state of significant and worsening deficits, and financial reserves which were depleted to maintain services in the current fiscal year. Large budget cuts are likely in 2017-18 without new revenues, raising questions of whether the County has the resources to effectively enforce a cannabis ban.

Cannabis cultivation is well-established in Calaveras County, but increased significantly after the 2015 Butte Fire, Medical Marijuana Regulation and Safety Act, and a 2016 County urgency ordinance establishing a temporary licensing and regulatory structure for medicinal cannabis cultivation. We have conservatively estimated the value of Calaveras cannabis cultivation in 2016 at over \$250 million, making it the largest industry in the County by far.<sup>1</sup>

In November 2016, recreational use of cannabis was legalized state-wide through passage of Proposition 64, the Adult Use of Marijuana Act (AUMA). However, during this same election Calaveras County voters defeated Measure D which would have established permanent regulations over the cannabis sector in the County. Additionally, Calaveras County voters approved Measure C, which established local taxes on the cannabis sector in the County. A May 2017 special election for Measure B, which would have banned commercial cannabis in the County, was cancelled by a recent court decision. However, the County Board of Supervisors is still considering enacting a ban despite a recent decision to extending the current temporary urgency ordinance that regulates medicinal cultivation in the County. Additional ballot initiatives are possible in the fall from both the ban and regulate sides of the debate.

While there is uncertainty about the details of the State's implementation of Proposition 64 and any future regulatory or ban framework in Calaveras County, there is enough information to develop a fiscal impact analysis using a reasonable set of assumptions. We find that there would be substantial fiscal benefits to the County of any reasonable regulation scheme compared to the alternative of banning commercial cannabis activity.

The remainder of this report is organized as follows. Section 2 presents a summary of the Calaveras County cannabis cultivation program, including its costs, and compares it to some other cannabis cultivation programs being developed around the state. Section 3 presents a detailed description of each revenue item and how it was calculated. Section 4 presents other relevant information, including some background on the County budget and qualitative discussion of potential additional revenues and costs that were not included in Sections 2 and 3. Section 5 includes discussion and conclusions from the analysis.

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<sup>1</sup> "An Economic Impact Assessment of the Cannabis Cultivation Industry in Calaveras County". CBPR. 2017. Table 1, Page 8. Found [here](#).

## 2. Calaveras Cannabis Cultivation Regulatory Program Costs

### 2.1 Program Summary

The May 2016 urgency ordinance defines the regulations governing the location of medicinal cannabis cultivation and commercial activities, registration of cultivation sites, and enforcement. Any proposal for a permanent regulatory ordinance is expected to have stricter locational requirements such as larger minimum lot sizes, setbacks, and restrictions in residential zones that could reduce nuisance costs and improve enforcement. However, it is unlikely that these anticipated changes would significantly alter the County's costs of implementing the cannabis regulatory program. Thus, we assume that the fiscal effects of the current urgency ordinance would continue under a permanent regulatory ordinance. These include:

- **License Fees:** Cultivation for personal use is permitted throughout the residential zones of the county, as long as the cannabis plants are grown indoors, or away from public sight. All types of grow sites are permitted to grow on land designated as agricultural or forest land, while indoor grows are permitted on most types of land, with the exception of single-family residential. A full table of locational requirements can be found in section 17.95.180 of the urgency ordinance<sup>2</sup>.
- **Recovery of Abatement Costs From Property Owners:** Calaveras County maintains the right to, at a reasonable time, inspect any parcel known to be or suspected to cultivating cannabis. If the parcel is in violation of regulations and is an immediate threat to public health and safety, the County may issue abatement orders for the parcel. Costs of the abatement can be recovered pursuant to County Code 8.06 as follows: "County Code section 8.06.820 permits Code Compliance to cause a violation to be abated if not abated by the violator within the time prescribed in the notice of violation following approval by the Board of Supervisors. Government Code section 25845 (b) states, "the owner of the parcel upon which the nuisance is found shall be liable for all costs of abatement incurred by the County, including, but not limited to administrative costs, and all cost incurred in the physical abatement of the nuisance." Section 25845 and section 8.06.820 permit the cost of abatement to be charged against the real property upon which the violation has occurred and to be a recorded lien upon such real property and assessment on real property taxes<sup>3</sup>" In addition to abatement costs, the County may issue an administrative fine of \$1,000 per day.
- **Staffing and Other Costs:** Implementation costs for the urgency ordinance were estimated by the County at \$2.3 million annually which includes salary and benefit for 25 new employees. This is a robust regulatory program that we assume will continue at the same scale with a permanent regulatory ordinance. Table 1 summarizes the costs and staffing of the Calaveras County cannabis cultivation program.

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<sup>2</sup> Found here:

[http://www.planning.calaverasgov.us/Portals/planning/Plan%20Comm%20Meetings/Info/Cannabis/ORD\\_20160510\\_03069\\_MEDICAL\\_CANNABIS\\_CULTIVATION\\_5-10-16%20-%20Copy.pdf](http://www.planning.calaverasgov.us/Portals/planning/Plan%20Comm%20Meetings/Info/Cannabis/ORD_20160510_03069_MEDICAL_CANNABIS_CULTIVATION_5-10-16%20-%20Copy.pdf)

<sup>3</sup> February 28, 2017 Board of Supervisors Meeting Packet, Page 78.

**Table 1: Estimated Staff and Cost of the Calaveras County Cannabis Cultivation Program, 2016-17**

Position	New FTE	New FTE Per 100 Permit Applications	Labor Cost	Equipment	Total Cost
Deputy Sheriff	6	0.81	\$540,444	\$230,000	\$770,444
Sergeant	1	0.14	\$135,017	\$0	\$135,017
Sheriff Service Techs	6	0.81	\$168,968	\$14,119	\$183,087
Code Enforcement Officer	3	0.41	\$230,454	\$74,000	\$304,454
Deputy County Counsel	1	0.14	\$124,218	\$2,000	\$126,218
Agricultural Biologist	1	0.14	\$67,993	\$12,500	\$80,493
Environmental Health Technician	1	0.14	\$64,145	\$39,500	\$103,645
Registered Environmental Health Specialist	2	0.27	\$143,281	\$29,000	\$172,281
Planner I/II	3	0.41	\$135,999	\$176,127	\$312,126
Office Technician	1	0.14	\$53,307	\$60,000	\$113,307
<b>Total</b>	<b>25</b>	<b>3.39</b>	<b>\$1,663,826</b>	<b>\$637,246</b>	<b>\$2,301,072</b>

## 2.2 Comparison to Other Programs

Other counties and cities in California are developing local regulatory programs for cannabis cultivation. This section takes a brief look at some other comparable cannabis cultivation programs in Northern California. The city of Sacramento, as well as Santa Cruz, and Mendocino Counties provide detailed examples of jurisdictions that have estimated the resources required to regulate and enforce local cannabis cultivation programs. Table 2 summarizes these other programs. The Santa Cruz and Mendocino County programs are similar to Calaveras in scale and focus on outdoor cultivation. However, they have less robust permitting and enforcement resulting in significantly lower staffing and cost compared to the Calaveras program. The Sacramento City program is close to the Calaveras program’s staffing and costs, but has a very different setting, regulating a large number of indoor-cultivation operations in an urbanized setting where costs are higher. The Calaveras program appears to be very robust by comparison, and should provide for a strong enforcement program to reduce the negative effects and eliminate illegal operations over time.

**Table 2: Other Northern California Cannabis Cultivation Programs**

Region	New FTE	New FTE per 100 permits	Cost	Expected Permits
City of Sacramento	39.65	9.95	\$2.7 million	200 (all indoor)
Santa Cruz County	5	2	\$950,000	250
Mendocino County	5	1.42	\$745,000	350

## **Santa Cruz County**

The annual cost of Santa Cruz County's cannabis cultivation program is estimated by the Santa Cruz County Administrative Office to be \$950,000 including \$814,000 in salary expenses and \$136,000 in capital expenditures and will require five new full time equivalent employees. These new employees include a cannabis manager, two resource planners, and two cannabis enforcement officers. This cost and new full time equivalent employment information is based on 250 permitted grows in the county; however, Santa Cruz received over 950 registration requests so it is likely these estimates will have to increase. Registration is not mandatory in Santa Cruz County. However, only those who register with the County can register with local jurisdictions. Likewise, only those who register with local jurisdictions can register with the State once the State registration system is put in place. The cost of this voluntary registration is \$500, with a voluntary pre-license site inspection costing an additional \$2,500<sup>4</sup>.

## **Mendocino County**

The Mendocino County cannabis cultivation program is estimated by the County CEO to cost \$745,000 annually and require five new full time equivalent employees. The program will be run out of the Agricultural Commissioner's Office and include an assistant agricultural commissioner, three inspectors, and an administrative assistant. Mendocino County expects 350 applicants for the annual program. The registration cost is a flat fee of \$1,500 plus \$50 per zip tie with a limit of 99 ties. Therefore the maximum registration fee in the County is \$6,340<sup>5</sup>.

Unlike the programs in Santa Cruz and Mendocino Counties, the costs of the Calaveras cannabis cultivation program explicitly include expected increases in secondary industries as well. These cost increases include expenditures made for County Counsel to deal with expected legal fallout and agricultural and environmental health, in addition to increase in enforcement spending. Based on these estimates compared to Santa Cruz and Mendocino, CBPR believes these estimates are both robust, and reasonable for a cultivation program of this size.

## **City of Sacramento**

The Sacramento cannabis cultivation program is designed for an urban environment with all permits for indoor cultivation. This is a very different environment than Calaveras County, and is likely to have much higher costs. The annual cost of Sacramento's cannabis program is estimated by the Sacramento budget and Audit Committee to be \$2.7 million including \$600,000 for administration and permit processing, and \$2.1 million for enforcement and will require 39.65 new full time equivalent positions from administrative assistants to police inspectors. Sacramento expects approximately 200 legal grow permits. The cost of a cultivation permit varies by grow type. Permit fees range from \$8,240 (\$9,670 for the first year) for Class A cultivation sites of up to 5,000 square feet to \$18,100 (\$28,820 for the first year) for Class C cultivation sites greater than 22,000 square feet<sup>6</sup>.

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<sup>4</sup> <https://scccannabis.co.santa-cruz.ca.us/>

<sup>5</sup> <http://theava.com/archives/66120>

<sup>6</sup> Attachment 9, City of Sacramento Budget and Audit Committee Report. February 7, 2017.

### 3. Calaveras Cannabis Cultivation Regulatory Program Revenue

If Calaveras County chooses to allow and regulate commercial cannabis activity, the County will receive revenue from a variety of sources that will not exist with a ban. This section estimates potential annual tax revenue from five sources: 1) local registration fees, 2) Measure C cultivation tax, 3) Measure C retail excise tax, 4) local share of statewide sales tax on cannabis sales, and 5) Proposition 64 grants to local law enforcement. The revenue estimates are for the 2017-18 fiscal year, which begins six months after the start of recreational cannabis sales under Proposition 64. Total revenue is estimated to be between \$9.5 million and \$17 million annually.

#### 3.1 Cannabis Producers

Cannabis cultivation in Calaveras County is currently governed by an urgency ordinance passed on May 10, 2016. Under this ordinance cultivators may apply to register with the County Planning Department if the applicant operated an established cannabis cultivation site prior to May 10, 2016. As of January 24, 2017 Calaveras County had received 737 applications for cannabis cultivation permits. By January 31, 2017 the County Planning Department had reviewed 100 of those applications, approving permits for 34 of those applications. This analysis uses that 34% approval rating to estimate that there will be 250 legally permitted cannabis cultivation sites throughout the County.

#### 3.2 Cannabis Program Revenues

##### 3.2.1 Registration Fee

A registration application fee of \$5,000 is charged to cultivators under the urgency ordinance and a similar registration or license fee is anticipated to continue under a permanent ordinance. As discussed above, while there were 737 applicants this year, it is assumed that only 250 of those applications will succeed and reapply in future years. Therefore, the annual revenue estimate is made using this more conservative 250 application estimate, resulting in annual revenues of \$1.25 million.

Registration fee revenues are required to be spent on costs directly related to the cannabis cultivation program, namely those costs introduced in Table 1. If the number of licensed cultivators decreases as we anticipate, it is possible if not likely that this fee could be increased to what is necessary to cover the full cost of the program. Thus, we believe it is reasonable to believe that this fee will increase in the future and have set a value of \$10,000 per license which would generate \$2.5 million in revenue and be approximately equal to the cost of the cannabis program. Other revenues, such as Measure C taxes and sales taxes from cannabis, are not restricted in this way and may be used for general County purposes.

**Table 3: Application Fee Calculation**

<b>Renewal Application Fee Revenue</b>		
Application Fee	\$5,000 (current)	\$10,000 (increase)
Number of applications	250	250
<b>Application Fee Revenue</b>	<b>\$1,250,000</b>	<b>\$2,500,000</b>

### 3.2.2 Measure C Cultivation Tax

The Measure C cultivation tax is a general purpose tax passed by voters in the November 8, 2016 election. Measure C imposes a \$2 per square foot tax on registered or permitted outdoor and mixed light canopy area and \$5 per square foot for indoor canopy area from the time cannabis cultivation is legalized, until the State’s track and trace system is implemented. At that point, the tax changes to \$45 per pound of flower cultivated outdoors, and \$70 per pound of flower cultivated indoors<sup>7</sup>.

In order to present a more conservative estimate of revenue generated from the Measure C cultivation tax, it is estimated that all of the cultivation sites in the County are outdoor or mixed light grows. Table 4 presents the calculations for the Measure C cultivation tax generated both before and after the track and trace program is implemented. This is done due to the uncertainty in when the program will be instituted. The resulting Measure C cultivation tax is estimated to generate \$7.7 million in revenue before the implementation of the track and trace program, and \$11.1 million after the implementation of the track and trace program.

**Table 4: Measure C Cultivation Tax Revenue Calculation**

<b>Measure C Revenue – Square Feet</b>	
Tax Per Square Foot	\$2
Cultivation Sites	250
Average Square Feet per Site	15,427
<b>Measure C Revenue</b>	<b>\$7,713,500</b>
<b>Measure C Revenue - Track and Trace</b>	
Tax Per Pound	\$45
Pounds Produced	246,539.5
<b>Measure C Revenue</b>	<b>\$11,094,277.50</b>

While these calculations show an increase in Measure C revenue with track and trace and switch to per pound taxation, it is not automatic that revenue will increase with this switch since the calculation is the function of our estimated scenario for square feet of production and productivity per square foot. With a permanent ordinance, we expect much production to switch over time from outdoor production to mixed light with multiple harvests per year which would lead to higher Measure C revenue under track and trace than a per square foot tax that is fixed for any number of harvests. The average square feet per cultivation site was obtained from a report submitted to the Calaveras County Board of Supervisors at the January 31, 2017 meeting. The pounds of cannabis produced in Calaveras County is based on the analysis from our February 2, 2017 “Economic Impact Assessment of the Cannabis Cultivation Industry in Calaveras County”.

### 3.2.3 Measure C Retail Excise Tax

The Measure C retail excise tax is also part of the general purpose tax passed by voters in the November 8, 2016 election. The retail excise tax imposes a 7% tax on all retail storefronts, collectives, and dispensaries<sup>8</sup>. The retail excise tax also imposes a 7% tax on all manufacturing

<sup>7</sup> County Code 3.56.030(B)(1)

<sup>8</sup> County Code 3.56.030(B)(3)



activities, although for the purpose of this analysis it is assumed that no manufacturing activities will take place within Calaveras County. This is done for two reasons. The first is to maintain a more conservative estimate of revenues generated by the cannabis sector. The second reason is that, given the uncertain future of marijuana businesses in the County and the capital intensive nature of manufacturing enterprises, it was anticipated that most of the regional manufacturing activities would invest outside of the County. Table 5 shows the Measure C retail excise tax calculation.

**Table 5: Measure C Excise Tax Calculation**

<b>Measure C Excise Tax</b>	
Population of California	38,421,464
Population of Calaveras	44,767
% California Population	0.12%
California Cannabis Consumption (in pounds)	1,411,971
Calaveras County Consumption (in pounds)	1645
Price Per Pound	\$3,920
Value of Cannabis Consumed in Calaveras County	\$6,449,053
Measure C Excise Tax Rate	7%
<b>Value of Measure C Retail Excise Tax</b>	<b>\$451,434</b>

The population of California and Calaveras County were obtained from the U.S. Census Bureau<sup>9</sup>. The number of pounds of cannabis consumed is from a report published by CBPR on February 2, 2017<sup>10</sup>. The Calaveras County cannabis consumption share is assumed to be the same as Calaveras County’s population share. The price per pound was obtained from Weedmaps.com, it is the median price per pound for Indica flowers<sup>11</sup>. The cannabis price per pound is subject to changes in market conditions and reflects the price as it was March 28, 2017. This revenue estimate is conservative because it is only based on estimated Calaveras County demand, and does not include sales to residents of neighboring counties or tourists. Excise tax revenue could be higher if neighboring counties such as Amador and Tuolumne ban commercial sales, forcing some of their residents to purchase cannabis in Calaveras County.

#### 3.2.4 Local Share of Statewide Sales Tax

In addition to the Measure C excise tax, retail sales of cannabis in Calaveras County would also be subject to normal state sales taxes. Since 1956, County governments have receive 1% of the 7.5% state sales tax rate. This is known as the Bradley-Burns rate. It is estimated that the Bradley-Burns sales tax from recreational cannabis sales could bring in \$65,000 annually to the County. The calculation for estimating Calaveras County’s share of the statewide sales tax is presented in Table 6.

The population of California and Calaveras County were obtained from the U.S. Census Bureau<sup>12</sup>. The number of pounds of cannabis consumed was obtained from a report published by CBPR on

<sup>9</sup> 5-Year American Community Survey population estimates. Table B01003.

<sup>10</sup> Available here: [http://www.pacific.edu/Documents/school-business/BFC/CannabisStudy/Calaveras%20Cannabis%20Cultivation%20EIS\\_2017.pdf](http://www.pacific.edu/Documents/school-business/BFC/CannabisStudy/Calaveras%20Cannabis%20Cultivation%20EIS_2017.pdf)

<sup>11</sup> Weedmaps is accessed here: <https://weedmaps.com/dispensaries/little-trees-collective#/menu>

<sup>12</sup> 5-Year American Community Survey population estimates. Table B01003.

February 2, 2017<sup>13</sup>. The Calaveras County cannabis consumption share is assumed to be the same as Calaveras County’s population share. The cannabis price per pound was obtained from Weedmaps.com, it is the median price per pound for Indica flowers<sup>14</sup>. The price per pound is subject to changes in market conditions and reflects the price as it was March 28, 2017.

**Table 6: Statewide Sales Tax Calculation**

<b>Sales Tax</b>	
Population of California	38,421,464
Population of Calaveras	44,767
% California Population	0.12%
California Cannabis Consumption (in pounds)	1,411,971
Calaveras County Consumption (in pounds)	1645.1665
Price Per Pound	\$3,920
Value of Cannabis Consumed in Calaveras County	\$6,449,053
Sales Tax Rate Returned to Calaveras County	1%
<b>Value of Sales Tax Returned to Calaveras County</b>	<b>\$64,491</b>

### 3.2.5 Proposition 64 Grants to Local Government

The Adult Use of Marijuana Act created a Tax Fund whereby taxes collected related to marijuana are distributed to various entities including the Board of State and Community Corrections. These funds are then distributed to local governments to “...assist with law enforcement, fire protection, or other local programs addressing public health and safety associated with the implementation of the [Adult Use of Marijuana Act].” These funds are only available to local jurisdictions that have not banned the cultivation, or retail sale of marijuana<sup>15</sup>.

Table 7 presents information on how many funds are available statewide. The numbers and letters on the far left of Table 7 refer to the section of the California Government Code governing the specific use of the AUMA tax fund. The Legislative Analyst’s Office estimates that the tax fund will receive approximately \$1 billion per year, of which \$118 million is available statewide for distribution to local government law enforcement agencies in jurisdictions that allow commercial cannabis operations. The largest pot of AUMA funding, approximately half, is dedicated to youth education, prevention, early intervention and treatment accounts. Calaveras County programs could be eligible for a significant amount of AUMA funds from this source, but we do not include it in this section because the AUMA does not contain language that would restrict those funds from going to jurisdictions that ban commercial cannabis. However, it is possible that state authorities could prioritize these resources for areas that allow commercial cannabis activity and thus our estimate of Proposition 64 revenues could be conservative.

There is no indication in the text of the law suggesting how the estimated \$118 million slated for the Board of State and Community Corrections will be distributed, except that it will only be given to

<sup>13</sup> Available here: [http://www.pacific.edu/Documents/school-business/BFC/CannabisStudy/Calaveras%20Cannabis%20Cultivation%20EIS\\_2017.pdf](http://www.pacific.edu/Documents/school-business/BFC/CannabisStudy/Calaveras%20Cannabis%20Cultivation%20EIS_2017.pdf)

<sup>14</sup> Weedmaps is accessed here: <https://weedmaps.com/dispensaries/little-trees-collective#/menu>

<sup>15</sup> California Government Code 34019(f)(3)(C)

jurisdictions that have not banned the cultivation, or retail sale of marijuana. Therefore this analysis presents a range of estimated grant funding in Table 8: a low estimate based on per-capita funding and a high estimate based on per-license funding.

**Table 7: Board of State and Community Corrections Estimation Calculation**

<b>Total Estimated Tax Funds</b>	<b>\$1,000,000,000</b>
34019(a) Administrative Costs (4% of total revenue)	\$40,000,000
34019(a) Department Costs (LAO reported from governor’s budget)	\$51,000,000
34019(b) UC or CSU for the study of the AUMA	\$10,000,000
34019(c) CHP for the development of marijuana protocols	\$3,000,000
34019(d) Governor's Office of Business and Economic Development	\$50,000,000
34019(e) UC San Diego Center for Medicinal Cannabis Research	\$2,000,000
<b>Remaining Tax Revenues</b>	<b>\$844,000,000</b>
34019(f)(1) Youth Education, Prevention, Early Intervention and Treatment Account	\$506,400,000
34019(f)(2) Environmental Restoration and Protection	\$168,800,000
<b>34019(f)(3) State and Local Government Law Enforcement Account</b>	<b>\$168,800,000</b>
34019(f)(3)(A) CHP for training programs to detect driving under the influence	\$10,000,000
34019(f)(3)(B) CHP and local governments to fund anti DUI programs	\$40,000,000
<b>34019(f)(3)(C) Board of State and Community Corrections</b>	<b>\$118,800,000</b>

**Table 8: Calaveras County Prop. 64 Grant Calculation**

<b>Per capita distribution if all California counties receive funds</b>	
California Population	38,421,464
Estimate 65% of CA Population in Cannabis Permitting Areas	24,973,951
Calaveras County Population	44,767
Calaveras % of California Permitted Population	0.18%
Board of State and Community Corrections Funds	\$118,800,000
<b>Calaveras County BSCC Funds</b>	<b>\$212,949</b>
<b>Number of Permits Distribution</b>	
Total Permits from all Counties	23,253
Calaveras Permits	843
Calaveras % of California Marijuana Counties	3.63%
Board of State and Community Corrections Funds	\$118,800,000
<b>Calaveras County BSCC Funds</b>	<b>\$4,306,902</b>

As shown in Table 8, the low estimate assumes that grants are distributed on a per capita basis to those communities permitting cannabis enterprises. For this calculation, we assume 65% of the state population lives in areas that are eligible for the funding based on similar estimates for

Washington state in the early stages of their cannabis regulation program.<sup>16</sup> As a high estimate it is assumed that the share of total cannabis permits is used to determine the distribution of funds. The number of cannabis permits was obtained from a California Department of Food & Agriculture survey from August 2016<sup>17</sup>. These two approaches result in a range of between \$212,949 and \$4.3 million in annual Proposition 64 grant funding.

### 3.3 County Budget

The Calaveras County budget has, in recent years, hovered around the \$90 million mark. It was \$97 million in FY 2013, \$85 million in FY 2014, and \$90 million in FY 2015. The Board of Supervisors approved budget in FY 2016 is significantly higher than the historical trend at \$169 million, \$31 million more than revenues. Some of the reasons for this include emergency costs for the Butte Fire and tree-mortality, costs related to the cannabis program, and the understaffing needs of various County departments. The County Administrative Officer stated in a March 9, 2017 interview with the Calaveras Enterprise that the Sheriff’s Office, Planning Department, Public Works Department, and Assessor’s Office are all underfunded and understaffed.

In FY 2015, the last year of “normal budget” activity before the drastic increase in expenditures due largely to the Butte Fire emergency and the cannabis program funded by the temporary urgency ordinance, Calaveras County had 83 full time equivalent staff in the departments affected by the cannabis program, compared to 96 FTE staff in these departments in FY 2005. The cannabis program alone would increase staffing in these departments by 30%, while additional revenues from the cannabis program could help address the County’s structural deficit and improve staffing and service levels across all County departments.

**Table 9: Full Time Equivalent Staff in Cannabis Relevant Departments**

Department	2005 FTE	2015 FTE
Sheriff	54	48
Building/Code Enforcement	19	12
County Counsel	6	7
Environmental Management	8	9
Planning	9	7
<b>Total</b>	<b>96</b>	<b>83</b>

### 3.4 Indirect Costs

Additional cost concerns center around costs that could possibly be related to the cannabis cultivation program in the County, but cannot be directly tied to the cannabis cultivation program. One such cost includes increased health and welfare costs as workers brought to the County to harvest cannabis may not have insurance and utilize free emergency care and other social services in the County. Another such cost includes an increased homeless problem as workers that traveled to Calaveras County for cannabis employment, but could not find any, are forced to live on the streets.

<sup>16</sup> [http://www.wsipp.wa.gov/ReportFile/1555/Wsipp\\_Medical-Marijuana-Access-and-Regulations-in-Washington-State\\_Full-Report.pdf](http://www.wsipp.wa.gov/ReportFile/1555/Wsipp_Medical-Marijuana-Access-and-Regulations-in-Washington-State_Full-Report.pdf)

<sup>17</sup> Accessible here: <https://www.cdfa.ca.gov/is/mccp/news/36>

These may be indirect costs associated with the cannabis cultivation industry, but it is important to note that these costs would exist in the County whether or not cannabis is regulated or banned. In fact, they could be higher under a ban scenario if it results in more illegal cultivation which is more likely to utilize illegal labor. Likewise, even if commercial cannabis enterprises are banned in Calaveras County, personal possession and use will still be legal in all areas of California under the AUMA. Thus, there may not be a large difference in local use under the ban and regulate scenario and social costs from cannabis consumption could be similar in both scenarios.

### 3.5 Other Revenue Sources

While the five revenue sources discussed in Section 3.2 are the direct funding sources for the County from regulating cannabis activity, there are a number of other, indirect or less certain sources that might also generate revenue. These other funding sources include abatement costs, administrative fines, and other statewide tax fund programs. Notably, these other revenue sources could generate revenue in both ban and regulate scenarios, although it seems likely that they would be higher in a regulate scenario.

As discussed in Section 2.1, the Calaveras County Code allows for all abatement costs related to cannabis cultivation to be recoverable by the County from the owner of the property where the abatement occurs. Because this allows for complete coverage of the costs from a specific source, it was not an item included in the cost breakdown. In addition to recovery of abatement costs, the County can also levy a \$1,000 fine for each day the cultivation site is out of compliance. Property owners have a strong incentive to self-abate to avoid these costs when cited for illegal cannabis activity on their property. Thus, we do not expect it to be a major source of revenue for the county in addition to the long time-lags and uncertain effectiveness in collecting these costs. These revenues could exist in both scenarios, but might be larger if the County regulates cannabis simply because the County would have a larger enforcement staff to initiate abatement activities.

As discussed earlier and seen in Table 7 there are two additional accounts under California Government Code 34019(f), the Youth Education, Prevention, Early Intervention and Treatment Account, and the Environmental Restoration and Protection Account. Unlike the Board of State and Community Corrections grant, the grants from these other funds are not restricted to only those jurisdictions that have not banned marijuana cultivation and sale. However, it is unknown how the funds will be distributed and it is possible that a majority will go to jurisdictions which are impacted more by marijuana businesses – jurisdictions that have legalized and regulated marijuana.

### 4.4 Illegal Cultivation

According to a report compiled by the County Planning Department and submitted to the County Board of Supervisors on January 31, 2017 there were over 500 cultivation sites that were operating without registering for a permit. This illustrates that a significant number of illegal cultivation sites are likely to continue operating in Calaveras County whether cannabis is regulated or banned and some indirect revenues (i.e. sales tax at non-cannabis businesses) and indirect costs (i.e. health or child welfare costs) can be anticipated under a regulation or ban scenario. Regulating cannabis is likely to help reduce the number of illegal cultivation sites by allowing legal cultivation sites to dominate the market, and tax and fee revenues collected on these legal cultivation sites will allow for the funding of enforcement and abatement activities to occur at illegal sites. Under a ban, the fiscal situation of the County would make a robust enforcement program difficult and illegal production

could increase as some would-be licensed cultivators shift to lower-cost illegal production since there will still be a strong market for cannabis in other states and jurisdictions where recreational cannabis remains illegal.

#### 4. Conclusion

This study analyzed a range of fiscal effects of the Calaveras County cannabis cultivation program. As shown in Table 10, the results demonstrate that regulating commercial cannabis is estimated to generate between \$7.2 million and \$15.9 million in net revenue for the County after accounting for additional County costs that would result from the cannabis regulation program. This net revenue represents between 12% and 25% of the County general fund and thus would make a substantial difference to the County’s efforts to resolve its structural deficit and improve a range of public services.

**Table 10: Fiscal Impact Results Summary**

	<b>Regulation</b>	<b>Ban</b>
Legal Cannabis Producers	250	0
Illegal Cannabis Production	Low	High
Registration Fee Revenue	\$1,250,000 (low, \$5,000) \$2,500,000 (high, \$10,000)	\$0
Measure C Cultivation Tax	\$7,713,500 (low, per sq. ft.) \$11,094,278 (high, per lb.)	\$0
Measure C Retail Excise Tax	\$451,434	\$0
Local Share of State Sales Tax on Cannabis Sales	\$64,491	\$0
Prop. 64 Grants to Local Law Enforcement	\$212,949 (low, per capita) \$4,306,902 (high, per license)	\$0
<b>Total Cannabis Related Revenue</b>	<b>\$9,692,374 (low)</b> <b>\$18,417,105 (high)</b>	<b>\$0</b>
Cannabis Program County Staff	25	0
Cannabis Program County Costs	\$2,531,179	\$0
<b>Net Revenue to the County</b>	<b>\$7,161,195 (low)</b> <b>\$15,885,926 (high)</b>	<b>\$0</b>
<b>Net Revenue as a Share of County General Fund</b>	<b>12% to 25%</b>	<b>0%</b>