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CAROL A. SCHWAB
City Attorney

TO: **Jeremy Green, City Clerk/City Elections Official for the City of Culver City**

Pursuant to California Elections Code and as directed by the City Council of the City of Culver City, I am providing you with an Impartial Analysis of the Proposed Culver City Cannabis Business Tax Measure (Measure A) regarding a proposed general business tax on cannabis businesses operating within the City, which measure the City Council placed on the ballot of the April 10, 2018 General Municipal Election.

CITY ATTORNEY'S IMPARTIAL ANALYSIS OF MEASURE A (CANNABIS BUSINESS TAX)

The Culver City City Council has placed Measure A on the ballot, which would approve an Ordinance enacting a Cannabis Business Tax on the gross receipts of adult-use (recreational) and medicinal cannabis businesses operating in the City, except cannabis cultivation businesses, which would be taxed on square footage of plant canopy. Cannabis is also known as marijuana. If approved by voters, this Measure would amend the Culver City Municipal Code by adding a new Chapter 11.32 to Title 11, allowing the City to impose the tax.

If the Measure is adopted, this business tax would be effective 10 days after City Council certification of election returns indicating the Measure's passage by a majority of voters casting votes on the Measure. The Cannabis Business Tax is a general tax enacted for general municipal purposes such as fire, paramedic and police protection; road repairs; youth programs; and parks and recreation. All tax proceeds would go to the City's General Fund.

As defined in the proposed Measure, cannabis businesses are involved in the manufacture, distribution, delivery, sale, exchange, barter, cultivation, or testing of cannabis. This includes procurement, transporting, compounding, extracting, infusing, preparing, and wholesale or retail sales of cannabis and cannabis products.

Culver City Employees take pride in effectively providing the highest levels of service to enrich the quality of life for the community by building on our tradition of more than seventy-five years of public service, by our present commitment, and by our dedication to meet the challenges of the future.

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Measure A, if approved, would establish the following cannabis business tax rates:

- 5-8% of gross receipts for medicinal marijuana retailers;
- 6-10% of gross receipts for adult-use marijuana retailers;
- 4-6% of gross receipts for cannabis manufacturing businesses;
- 2-6% of gross receipts for cannabis distribution businesses;
- 1-1.5% for cannabis testing businesses;
- $12 per square foot for marijuana cultivation, with increases based on the Consumer Price Index.

Gross receipts is generally defined as the total amount received by cannabis businesses for sales of goods, wares or merchandise, or for the performance of any act or service for which a charge is made, without deduction for the cost of operating the business. Square footage of cannabis cultivation businesses is generally defined as the City-permitted maximum amount of "canopy" (areas occupied by any portion of a cannabis plant).

Beginning in July 2020, the City Council may, by resolution, increase the tax rates, up to the maximums set in the Measure. Subsequent to a rate increase, the City Council may decrease that rate, if it does not fall below the minimums set in the Measure.

The Ordinance includes provisions specifying how the City Tax Administrator would collect the tax, which would be paid by cannabis businesses to the City on a quarterly basis. Measure A also includes provisions for handling delinquencies, penalties, appeals and for enforcement of taxing provisions.

Cannabis businesses may be subject to City audit, including review of accounts, tax returns and on-site operations. Such businesses are also required to comply with other general business tax requirements of the Culver City Municipal Code, as applicable.

A "Yes" vote on Measure A would adopt the Cannabis Business Tax Ordinance. A "No" vote would not adopt the Cannabis Business Tax Ordinance.

Dated: November 27, 2017

Carol A. Schwab

Carol A. Schwab, City Attorney
City of Culver City