

July 11, 2018



Creighton Avila
Deputy Chief Administrative Officer
El Dorado County
530-621-5153
Creighton.avila@edcgov.us

Subject: Summary Report and Revenue Projections

The County of El Dorado intends to place 5 cannabis-related measures on the November ballot. The first measure would be a commercial cannabis tax that allows the Board of Supervisors to set a range of rates on a variety of cannabis business types. The other 4 items are all advisory measures that ask the voters whether the County should allow a range of cannabis business activities, including:

- Outdoor or greenhouse (mixed light) cultivation for medicinal use
- Outdoor or greenhouse cultivation for adult (recreational) use
- Indoor cannabis business types for medicinal use, including cultivation, retail and distributors, but not including manufacturing
- Indoor cannabis business types (same) for adult use

The County does not currently anticipate permitting any commercial cannabis businesses unless the tax measure is approved. Cannabis nurseries, manufacturers and testing labs are not included within any of these advisory measures, but it is anticipated that the Board may consider approving them, depending upon voter support for the other activities. If cultivation is approved, then it is anticipated that the Board will approve cannabis nurseries as well. If indoor activities are approved, then it is anticipated that the Board will approve manufacturing as well. If any use is approved, then then it is anticipated that the Board will approve testing laboratories as well.

The proposed tax measure rates are as follows:

- Cultivation - 1% to 15% OR \$1 to \$30 per square foot
- Distributor - 0% to 10%
- Distributor (transportation) - 0% to 10%
- Manufacturing (level 1) - 2.5% to 10%
- Manufacturing (level 2) - 2.5% to 10%
- Retailer (delivery - only) - .5% to 10%
- Retailer - 4% to 10%
- Testing Laboratory - .5% to 5%

Total cannabis cultivation County-wide will be limited to 150 permits. Of these, 75 will be limited to outdoor or mixed-light cultivation, with a maximum size of 10,000 square feet of canopy. 40 of those 75 permits will be limited to a maximum size of just 3,000 square feet. The remaining 75 cultivation permits will not be limited by either size or cultivation method, allowing up to 22,000 square feet for indoor or greenhouse cultivation, or up to 1 acre (43,560 square feet) for outdoor cultivation.

The number of storefront dispensaries will be limited to 7. There is no limitation on the number of non-storefront retailers ("delivery services"), though they will be limited to commercial or industrial zones.

There is no cap on the number of cannabis distributors, nor is there currently any proposed cap on manufacturing, nurseries, or testing labs because they are not included in the advisory ballot measures.

The County has requested that HdL provide revenue projections for the ballot measure. HdL will provide a brief, summary report that provides a range of revenue estimates based upon the proposed range of tax rates, as well as a recommended “best projection” estimate for the ballot statement.

Cultivation

The proposed ordinance would allow up to 150 cultivation licenses, with certain limits as to how many of each size or type will be allowed. There are currently no licensed cultivators in El Dorado County, and so there is no existing data to indicate the level of local interest in each of the available license types.

To determine the likely distribution of these licenses among the 16 available cultivation license types, we have used nearby Calaveras County as a proxy. Though Calaveras has reversed course on whether to allow commercial cannabis cultivation, there was initially a large number of temporary State licenses issued in the County. As of June 1st, the CalCannabis Division of CDFA had issued 193 temporary licenses in Calaveras County. We have used the relative distribution of license types in Calaveras as the model for proportionally allocating the 150 licenses in El Dorado. That distribution is shown below in Figure 1.

Figure 1:

Type of Cultivation License	Number
Specialty Cottage Outdoor	1
Specialty Cottage Indoor	1
Specialty Cottage Mixed-Light Tier 1	12
Specialty Cottage Mixed-Light Tier 2	2
Specialty Outdoor	6
Specialty Indoor	5
Specialty Mixed-Light Tier 1	19
Specialty Mixed-Light Tier 2	0
Small Outdoor	11
Small Indoor	0
Small Mixed-Light Tier 1	14
Small Mixed-Light Tier 2	10
Medium Outdoor	17
Medium Indoor	2
Medium Mixed-Light Tier 1	28
Medium Mixed-Light Tier 2	22
Outdoor/Mixed-Light <3,000sf	40
Outdoor/Mixed-Light 3,000sf - 10,000sf	35
Unlimited	75
TOTAL CULTIVATION	150

The proposed limitation of 3,000 square feet for 40 of the licenses does not fit cleanly within the license categories as defined by the State. The only State cultivation license category that falls under 3,000 square feet is the “Specialty Cottage” license, which allows up to 25 plants outdoors, up to 500 square feet for indoor cultivation, and up to 2,500 square feet for mixed-light. The next step up, the “Specialty” license class, allows up to 5,000 square feet of cultivation whether outdoors, indoors or mixed-light.

We believe that the limitation being imposed would cause a number of growers to seek the 5,000 square foot “Specialty” licenses from the State, but limit their canopy to just 3,000 square feet. This limitation would only affect outdoor and mixed-light cultivation, as indoor cultivation would have to fall into the 75 “unlimited” licenses. However we would anticipate only a small number of indoor grows, as the “unlimited” licenses would be primarily be made up of

Medium Outdoor and Medium Mixed-Light grows.

The County is considering two possible structures for taxing cultivation: a tax of \$1 to \$30 per square foot of cultivation, or a tax of 1% to 15% of gross receipts. To estimate the amount of tax revenue that could be generated from a square footage tax, we need only know the total square footage for each outdoor, mixed-light and indoor cultivation. To estimate the amount of revenue from a gross receipts tax requires that we first estimate the amount of cannabis that can be grown, based upon the square footage. This takes a little more work.

Figure 2, below, shows the estimated average square footage for each of the license categories. We generally assume that the average cultivation area will be 75% of the allowable maximum for each license type. This allows for both cultivation premises that are below the maximum size, and for operations in which not all of the permitted cultivation space is utilized. Applying this 75% rule, and the

3,000 square foot limitation discussed previously, would give a total of just over 1.8 million square feet of cultivation.

Figure 2:

Type of Cultivation License	Number	Avg. SF	Total SF	Cycles	Yield @ 10sf/pd/cycle	Value @ \$750/lb
Specialty Cottage Outdoor	1	2,000	2,000	1	200	\$150,000
Specialty Cottage Indoor	1	500	500	5	250	\$187,500
Specialty Cottage Mixed-Light Tier 1	12	2,000	24,000	3	7,200	\$5,400,000
Specialty Cottage Mixed-Light Tier 2	2	2,000	4,000	3	1,200	\$900,000
Specialty Outdoor	6	3,000	18,000	1	1,800	\$1,350,000
Specialty Indoor	5	3,750	18,750	4	7,500	\$5,625,000
Specialty Mixed-Light Tier 1	19	3,000	57,000	3	17,100	\$12,825,000
Specialty Mixed-Light Tier 2	0	3,000	0	3	0	\$0
Small Outdoor	11	7,500	82,500	1	8,250	\$6,187,500
Small Indoor	0	7,500	0	4	0	\$0
Small Mixed-Light Tier 1	14	7,500	105,000	3	31,500	\$23,625,000
Small Mixed-Light Tier 2	10	7,500	75,000	3	22,500	\$16,875,000
Medium Outdoor	17	32,670	555,390	1	55,539	\$41,654,250
Medium Indoor	2	16,500	33,000	4	13,200	\$9,900,000
Medium Mixed-Light Tier 1	28	16,500	462,000	3	138,600	\$103,950,000
Medium Mixed-Light Tier 2	22	16,500	363,000	3	108,900	\$81,675,000
TOTAL CULTIVATION	150		1,800,140		413,739	\$310,304,250

We generally assume that outdoor cultivation yields 1 harvest cycle per year, while mixed-light can yield 3 cycles and indoor can yield 4¹. To this, we apply a standard yield factor of 0.1 pounds of cannabis per square foot of canopy, or 10 square feet per pound per cycle. Lastly, we apply an estimated market price of \$750 per pound of dried cannabis flower. Cannabis prices have fallen precipitously this past year due to market saturation. While it is still possible for some growers to sell their product at \$1,000 or more per pound, we believe this will become increasingly rare over the next few years.

To estimate the annual revenues that could potentially be generated by a tax on the gross receipts of cannabis cultivators, we have provided three scenarios. Scenario 1 assumes that the County will issue 25% of the maximum (150) cultivation permits. Scenario 2 assumes that the County will issue 50% of the maximum permits, and Scenario 3 assumes that all 150 permits will be issued. The gross receipts for each scenario are based on a proportional allocation of the various license types.

We have provided these smaller scenarios in recognition that the cannabis cultivation market in California is already oversaturated, producing more than twice as much cannabis as the legal market can absorb. We believe that these smaller projections are more realistic and would ultimately be more sustainable in a highly competitive industry.

To each of these scenarios we have applied a range of potential tax rates. The County is considering cultivation taxes ranging from 1% up to 15%. We have provided estimates for each of the three scenarios using rates of 1%, 3%, 5% and 15% of gross receipts. These rates and the resulting revenue projections are shown in Figure 3.

¹ Some indoor cultivators are able to produce 5 or even 6 cycles per year. However, we believe that 4 is a more consistent and conservative figure for purposes of revenue estimates. The one exception we have made here is for Specialty Cottage Indoor, as we anticipate that these smallest of growers will seek to maximize yield from their very limited (500sf) grow space.

Figure 3:

Cannabis Cultivation by Gross Receipts								
Cultivation Licenses	# of Licenses	% of 150 Total	Total Gross Receipts	Portion of Gross Receipts	Revenue @ 1.0% Tax Rate	Revenue @ 3.0% Tax Rate	Revenue @ 5.0% Tax Rate	Revenue @ 15.0% Tax Rate
Scenario 1	38	25%	\$310,304,250	\$77,576,063	\$775,761	\$2,327,282	\$3,878,803	\$11,636,409
Scenario 2	75	50%	\$310,304,250	\$155,152,125	\$1,551,521	\$4,654,564	\$7,757,606	\$23,272,819
Scenario 3	150	100%	\$310,304,250	\$310,304,250	\$3,103,043	\$9,309,128	\$15,515,213	\$46,545,638

A tax rate of 1% of gross receipts would generate between \$775,761 and \$3,103,043, depending upon the number, type and size of permits. A rate of 3% would generate between \$2,327,282 and \$9,309,128. A rate of 5% would generate between \$3,878,803 and \$15,515,213, and a rate of 15% would generate between \$11,636,409 and \$46,545,638.

In these and other projections, it is important to keep in mind that higher rates can be counter-productive to generating revenue, as they can discourage the industry from locating in the County, or discourage growers from seeking to become a part of the legal market. For this reason, we would advise the County to look upon the high revenue estimates from the 15% rate with some skepticism, as those numbers are unlikely to materialize.

As an alternative to a tax on gross receipts, the County is also considering a cultivation tax based on the square footage of the cultivation area. The rates being considered cover a very broad range, from \$1 per square foot all the way up to \$30 per square foot.

When applying a square footage tax to the same 3 scenarios, we consider different rates for each outdoor, mixed-light and indoor cultivation, in recognition of the different numbers of harvest cycles that are possible with each method. The range of rates used here are taken from HdL’s experience working with more than 25 counties and cities on cannabis tax measures for November, 2018. From this work, we have seen a number of emerging norms for cannabis taxes. The most common practice is to provide both an initial rate and a maximum rate, so that the jurisdiction has the ability to adjust tax rates as needed within that range, without having to go back to the voters.

Working within the County’s range of \$1 to \$30 per square foot, we have applied three different sets of tax rates for each outdoor, mixed-light and indoor cultivation. The lowest rates are those commonly used as initial rates for such tax measures, with a rate of \$2 per square foot for outdoor cultivation, \$4 per square foot for mixed-light, and \$7 for indoor. The medium rates are those generally used as the maximum rates in most tax measures, set at \$4 per square foot for outdoor, \$7 for mixed-light and \$10 for indoor. The highest rates are based on the County’s maximum range of \$30 per square foot. Here we have applied it to the three different cultivation types by setting it at \$10 for outdoor, \$20 for mixed-light and \$30 for indoor.

We have applied these three ranges of tax rates to the same three scenarios used for the gross receipts tax, with 25%, 50% and 100% of the maximum 150 cultivation licenses. As before, the license types are distributed proportionally based upon the figures from Calaveras County. The potential revenues from these three scenarios are shown in Figures 4, 5 and 6.

Figure 4:

Cultivation Scenario 1: Square Footage Tax Rates at 25% of Maximum										
Type of Cultivation License	Max Permits	25%	Avg. SF	Total SF	Tax/sf 2/4/7	Revenue	Tax/sf 4/7/10	Revenue	Tax/sf 10/20/30	Revenue
Specialty Cottage Outdoor	1	0	2,000	0	\$2	\$0	\$4	\$0	\$10	\$0
Specialty Cottage Indoor	1	0	500	0	\$7	\$0	\$10	\$0	\$30	\$0
Specialty Cottage Mixed-Light Tier 1	12	3	2,000	6,000	\$4	\$24,000	\$7	\$42,000	\$20	\$120,000
Specialty Cottage Mixed-Light Tier 2	2	0	2,000	0	\$4	\$0	\$7	\$0	\$20	\$0
Specialty Outdoor	6	2	3,000	4,500	\$2	\$9,000	\$4	\$18,000	\$10	\$45,000
Specialty Indoor	5	1	3,750	4,688	\$7	\$32,813	\$10	\$46,875	\$30	\$140,625
Specialty Mixed-Light Tier 1	19	5	3,000	14,250	\$4	\$57,000	\$7	\$99,750	\$20	\$285,000
Specialty Mixed-Light Tier 2	0	0	3,000	0	\$4	\$0	\$7	\$0	\$20	\$0
Small Outdoor	11	3	7,500	20,625	\$2	\$41,250	\$4	\$82,500	\$10	\$206,250
Small Indoor	0	0	7,500	0	\$7	\$0	\$10	\$0	\$30	\$0
Small Mixed-Light Tier 1	14	4	7,500	26,250	\$4	\$105,000	\$7	\$183,750	\$20	\$525,000
Small Mixed-Light Tier 2	10	3	7,500	18,750	\$4	\$75,000	\$7	\$131,250	\$20	\$375,000
Medium Outdoor	17	4	32,670	138,848	\$2	\$277,695	\$4	\$555,390	\$10	\$1,388,475
Medium Indoor	2	1	16,500	8,250	\$7	\$57,750	\$10	\$82,500	\$30	\$247,500
Medium Mixed-Light Tier 1	28	7	16,500	115,500	\$4	\$462,000	\$7	\$808,500	\$20	\$2,310,000
Medium Mixed-Light Tier 2	22	6	16,500	90,750	\$4	\$363,000	\$7	\$635,250	\$20	\$1,815,000
TOTAL CULTIVATION	150	37		448,410		\$1,504,508		\$2,685,765		\$7,457,850

Figure 4 shows the range of tax rates applied to Scenario 1, with 25% of the maximum number of cultivation licenses. The three ranges would generate between \$1,504,508 and \$7,457,850 in annual revenue. As with the 15% tax on gross receipts, we would advise the County to consider the higher number from the 30% tax range as theoretical, as the high rates would likely have a discouraging effect on the industry.

Figure 5 shows the same range of rates applied to Scenario 2, with 50% of the maximum number of cultivation licenses. Here these rates would generate between \$3,035,015 and a theoretical \$15,035,700.

Figure 5:

Cultivation Scenario 2: Square Footage Tax Rates at 50% of Maximum										
Type of Cultivation License	Total	50%	Avg. SF	Total SF	Tax/sf 2/4/7	Revenue	Tax/sf 4/7/10	Revenue	Tax/sf 10/20/30	Revenue
Specialty Cottage Outdoor	1	1	2,000	2,000	\$2	\$4,000	\$4	\$8,000	\$10	\$20,000
Specialty Cottage Indoor	1	1	500	2,000	\$7	\$14,000	\$10	\$20,000	\$30	\$60,000
Specialty Cottage Mixed-Light Tier 1	12	6	2,000	12,000	\$4	\$48,000	\$7	\$84,000	\$20	\$240,000
Specialty Cottage Mixed-Light Tier 2	2	1	2,000	2,000	\$4	\$8,000	\$7	\$14,000	\$20	\$40,000
Specialty Outdoor	6	3	3,000	9,000	\$2	\$18,000	\$4	\$36,000	\$10	\$90,000
Specialty Indoor	5	3	3,750	9,375	\$7	\$65,625	\$10	\$93,750	\$30	\$281,250
Specialty Mixed-Light Tier 1	19	10	3,000	28,500	\$4	\$114,000	\$7	\$199,500	\$20	\$570,000
Specialty Mixed-Light Tier 2	0	0	3,000	0	\$4	\$0	\$7	\$0	\$20	\$0
Small Outdoor	11	6	7,500	41,250	\$2	\$82,500	\$4	\$165,000	\$10	\$412,500
Small Indoor	0	0	7,500	0	\$7	\$0	\$10	\$0	\$30	\$0
Small Mixed-Light Tier 1	14	7	7,500	52,500	\$4	\$210,000	\$7	\$367,500	\$20	\$1,050,000
Small Mixed-Light Tier 2	10	5	7,500	37,500	\$4	\$150,000	\$7	\$262,500	\$20	\$750,000
Medium Outdoor	17	9	32,670	277,695	\$2	\$555,390	\$4	\$1,110,780	\$10	\$2,776,950
Medium Indoor	2	1	16,500	16,500	\$7	\$115,500	\$10	\$165,000	\$30	\$495,000
Medium Mixed-Light Tier 1	28	14	16,500	231,000	\$4	\$924,000	\$7	\$1,617,000	\$20	\$4,620,000
Medium Mixed-Light Tier 2	22	11	16,500	181,500	\$4	\$726,000	\$7	\$1,270,500	\$20	\$3,630,000
TOTAL CULTIVATION	150	75		902,820		\$3,035,015		\$5,413,530		\$15,035,700

Figure 6 shows the same rates applied to Scenario 3, with the maximum number of 150 cultivation permits being issued. This scenario would potentially generate between \$6,041,530 and \$29,946,400 in annual revenue. Again, we believe the higher figure is unlikely to materialize.

Figure 6:

Cultivation Scenario 3: Square Footage Tax Rates at 100% of Maximum										
Type of Cultivation License	Total	100%	Avg. SF	Total SF	Tax/sf 2/4/7	Revenue	Tax/sf 4/7/10	Revenue	Tax/sf 10/20/30	Revenue
Specialty Cottage Outdoor	1	1	2,000	2,000	\$2	\$4,000	\$4	\$8,000	\$10	\$20,000
Specialty Cottage Indoor	1	1	500	500	\$7	\$3,500	\$10	\$5,000	\$30	\$15,000
Specialty Cottage Mixed-Light Tier 1	12	12	2,000	24,000	\$4	\$96,000	\$7	\$168,000	\$20	\$480,000
Specialty Cottage Mixed-Light Tier 2	2	2	2,000	4,000	\$4	\$16,000	\$7	\$28,000	\$20	\$80,000
Specialty Outdoor	6	6	3,000	18,000	\$2	\$36,000	\$4	\$72,000	\$10	\$180,000
Specialty Indoor	5	5	3,750	18,750	\$7	\$131,250	\$10	\$187,500	\$30	\$562,500
Specialty Mixed-Light Tier 1	19	19	3,000	57,000	\$4	\$228,000	\$7	\$399,000	\$20	\$1,140,000
Specialty Mixed-Light Tier 2	0	0	3,000	0	\$4	\$0	\$7	\$0	\$20	\$0
Small Outdoor	11	11	7,500	82,500	\$2	\$165,000	\$4	\$330,000	\$10	\$825,000
Small Indoor	0	0	7,500	0	\$7	\$0	\$10	\$0	\$30	\$0
Small Mixed-Light Tier 1	14	14	7,500	105,000	\$4	\$420,000	\$7	\$735,000	\$20	\$2,100,000
Small Mixed-Light Tier 2	10	10	7,500	75,000	\$4	\$300,000	\$7	\$525,000	\$20	\$1,500,000
Medium Outdoor	17	17	32,670	555,390	\$2	\$1,110,780	\$4	\$2,221,560	\$10	\$5,553,900
Medium Indoor	2	2	16,500	33,000	\$7	\$231,000	\$10	\$330,000	\$30	\$990,000
Medium Mixed-Light Tier 1	28	28	16,500	462,000	\$4	\$1,848,000	\$7	\$3,234,000	\$20	\$9,240,000
Medium Mixed-Light Tier 2	22	22	16,500	363,000	\$4	\$1,452,000	\$7	\$2,541,000	\$20	\$7,260,000
TOTAL CULTIVATION	150	150		1,800,140		\$6,041,530		\$10,784,060		\$29,946,400

For the purpose of making conservative estimates of both the number of cultivation permits likely to be applied for and issued, and applying reasonable tax rates and projections, we would recommend that the County base its projections on the number of permits in Scenario 1, at initial rates of either 3% of gross receipts, or \$2, \$4 and \$7 per square foot for outdoor, mixed-light and indoor, respectively. This would generate either \$2,327,282 or \$1,504,508 in annual revenue, depending on the rate structure used.

Manufacturing

The County is not currently considering allowing cannabis manufacturing and has not included manufacturing in any of the advisory measures for the November ballot. However, the County may choose to allow cannabis manufacturing if voters show support for other indoor commercial cannabis business activities. Because of this, the County has not placed any limits on the number of permits that may be issued for cannabis manufacturers.

Cannabis manufacturing provides one of the best opportunities for industry growth. While the cultivation market is already oversaturated and retail is limited by the size of the local market, manufacturing is a market with relatively untapped potential. Sales of manufactured cannabis products now outpace flower as the preferred method of using cannabis, and new product types continue to emerge.

For purposes of making revenue projections, we have provided 3 scenarios, with 2, 4, and 10 manufacturers. HdL has reviewed over 1,200 pro-formas for commercial cannabis businesses, including manufacturers, and have seen expected averages of \$2.5 million in gross receipts for such businesses in some markets. In rural areas, however, such businesses tend to be smaller, providing “boutique” products. For this reason we have used an average of \$1.5 million in gross receipts for making our projections. We have applied rates of 2.5%, 3% and 4% to these numbers.

Based on these assumptions, 2 manufacturers would generate between \$75,000 and \$120,000 in annual revenue for the County, depending on the tax rate applied. 4 manufacturers would generate between \$150,000 and \$240,000 in revenue, and 10 manufacturers would generate between \$375,000 and \$600,000 in annual revenue for the County. These amounts are shown in Figure 7.

Figure 7:

Cannabis Manufacturers						
Type 6/7/N/P Manufacturer	# of Licenses	Avg Gross Receipts	Total Gross Receipts	Revenue @ 2.5% Tax Rate	Revenue @ 3.0% Tax Rate	Revenue @ 4.0% Tax Rate
Manufacturers	2	\$1,500,000	\$3,000,000	\$75,000	\$90,000	\$120,000
Manufacturers	4	\$1,500,000	\$6,000,000	\$150,000	\$180,000	\$240,000
Manufacturers	10	\$1,500,000	\$15,000,000	\$375,000	\$450,000	\$600,000

For purposes of revenue projections for the ballot measure, we would recommend the County assume 4 manufacturers taxed at the conservative rate of 2.5%, generating an estimated \$150,000 in annual revenue.

Distribution

The County provided a range of potential tax rates for distributors but placed no limits on the number of permits that may be issued. Distributors serve a vital supporting role in the cannabis industry, and having a number of distributors in El Dorado County would be critical in helping cultivators and manufacturers to compete in a statewide market.

We anticipate that the cannabis industry in El Dorado County could support (and be supported by) 2 to 4 distributors, given the numbers of other businesses being considered. While the model for cannabis distributorships is still evolving, we have seen average gross receipts in the range of \$2 million for smaller distributors in more rural areas.

The County has provided a range of up to 10% of gross receipts for cannabis distributors. Based on this, we have applied rates of 2%, 4% and 10% in Figure 8, below. We estimate that 2 distributors could generate between \$80,000 and \$400,000 in revenue, and 4 distributors could generate between \$160,000 and \$800,000. As with the high rates for other cannabis business types, we would caution that the 10% rate would likely have the effect of preventing any cannabis distributorships from locating in the County, which would likely have a negative impact on all other types of cannabis businesses.

Figure 8:

Cannabis Distributors						
License Type	# of Licenses	Avg Gross Receipts	Total Gross Receipts	Revenue @ 2.0% Tax Rate	Revenue @ 4.0% Tax Rate	Revenue @ 10.0% Tax Rate
Distributors	2	\$2,000,000	\$4,000,000	\$80,000	\$160,000	\$400,000
Distributors	4	\$2,000,000	\$8,000,000	\$160,000	\$320,000	\$800,000

For purposes of revenue projections for the ballot measure, we would recommend that the County use the most conservative estimate of 2 distributors, taxed at a rate of 2%, generating \$80,000 in annual revenue.

Retail

The County is considering allowing both storefront and non-storefront (delivery) cannabis retailers, each with a different range of tax rates. Storefront retailers would be limited to a maximum of 7 locations, while there would be no limit on the number of delivery services.

From HdL's review of over 1,200 business pro-formas, we have seen typical averages of around \$2,500,000 in gross receipts for cannabis retailers, with some larger locations in metropolitan areas grossing \$4 million or more. We have used the figure of \$2,500,000 here, and have provided scenarios of 2 and 7 such retailers. HdL also has access to confidential sales tax data from the California Department of Tax and Fee Administration (CDTFA) which supports these numbers for the County. The County has provided a range of tax rates from 4% up to 10% of gross receipts.

Based on these numbers, we anticipate that two retailers could generate between \$200,000 and \$500,000 in annual revenue for the County, and 7 retailers could generate between \$700,000 and \$1,750,000. These rates are shown in Figure 9, below.

Figure 9:

Cannabis Retailers						
License Type	# of Licenses	Avg Gross Receipts	Total Gross Receipts	Revenue @ 4.0% Tax Rate	Revenue @ 6.0% Tax Rate	Revenue @ 10.0% Tax Rate
Retailers	2	\$2,500,000	\$5,000,000	\$200,000	\$300,000	\$500,000
Retailers	7	\$2,500,000	\$17,500,000	\$700,000	\$1,050,000	\$1,750,000

We would recommend that the County base its revenue estimates on 7 retailers, at a conservative rate of 4%, generating \$700,000 in annual revenue.

Retail Delivery

Developing revenue estimates for cannabis delivery services must be done differently than for storefront retailers. The number of delivery services is not particularly relevant, as the amount of sales and gross revenues are based upon population and demand. We apply a variety of assumptions, each based on data, to determine the percentage of the population that uses cannabis on a regular basis, the percentage of buyers that use delivery services, the average transaction size, and the average transaction frequency.

The County has provided a very broad tax range from 0.5% up to 10% of gross receipts. We have applied rates of 0.5%, 4%, 6% and 10% in Figure 10, below. Assuming “best estimates” for a number of assumptions, these rates could generate anywhere from \$84,990 to \$1,699,000 in annual revenue.

Figure 10:

Revenue Projections for Cannabis Delivery Tax in El Dorado County			
	Low Estimate	"Best" Estimate	High Estimate
County population	185,000	185,000	185,000
Unincorporated population	154,000	154,000	154,000
Percentage of population that uses cannabis	10.0%	14.0%	22.0%
Number of cannabis users	15,400	21,560	33,880
Percentage of cannabis users that use delivery	30.0%	45.0%	60.0%
Number of delivery customers	4,620	9,702	20,328
Average transaction amount	\$73	\$73	\$73
Transaction frequency (per month)	2	2	2
Monthly gross receipts	\$674,520	\$1,416,492	\$2,967,888
Annual gross receipts	\$8,094,240	\$16,997,904	\$35,614,656
Annual revenue by tax rate (below)			
0.5%	\$40,471	\$84,990	\$178,073
4.0%	\$323,770	\$679,916	\$1,424,586
6.0%	\$485,654	\$1,019,874	\$2,136,879
10.0%	\$809,424	\$1,699,790	\$3,561,466

For purposes of revenue projections, we would recommend that the County use the rate of 4% as applied to the “best estimate” model, generating \$679,916 in annual revenue.

Testing Laboratories

The Bureau of Cannabis Control has so far only permitted 28 cannabis testing laboratories statewide. Because of this, we believe it is unlikely that the County would be able to attract such a facility unless and until it has developed a “critical mass” of other cannabis businesses.

Testing laboratories typically generate in the range of \$2 million in gross receipts. Assuming the County were successful in attracting a cannabis testing facility, we have applied the proposed rates of 0.5%, 1.5% and 5.0% to this figure. Doing so would generate between \$10,000 and \$100,000 in annual revenue for the County. However, we would not recommend that the County include any revenue from testing laboratories in its revenue projections.

Figure 11:

Cannabis Testing Laboratories						
License Type	# of Licenses	Avg Gross Receipts	Total Gross Receipts	Revenue @ 0.5% Tax Rate	Revenue @ 1.5% Tax Rate	Revenue @ 5.0% Tax Rate
Testing	1	\$2,000,000	\$2,000,000	\$10,000	\$30,000	\$100,000

Summary Revenue Projections

Cultivation:	\$1,504,508 to \$2,327,282
Manufacturing:	\$150,000
Distribution:	\$80,000
Storefront Retail:	\$700,000
Delivery:	\$679,916
Testing Laboratories:	\$0
Total Projected Revenue:	\$3,114,424 to \$3,937,198
Rounded Figures:	\$3 million to \$4 million in annual revenue