

MONTEREY COUNTY

AUDITOR - CONTROLLER

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Rupa Shah, CPA

AUDITOR-CONTROLLER



July 11, 2022

Via Electronic Mail and Hand Delivery

Honorable Stephanie E. Hulsey
Judge of the Superior Court
c/o Office of the County Counsel
168 West Alisal Street, 3rd Floor
Salinas, CA 93901

Dear Judge Hulsey:

Pursuant to Penal Code section 933.05(f), please consider this letter as the formal response from the Monterey County Auditor-Controller to the 2021-22 Monterey County Civil Grand Jury Final Report entitled "Monterey County's Cannabis Industry Up in Smoke?" transmitted on May 13, 2022.

I thank the Civil Grand Jury for their efforts and the opportunity to respond to their findings and recommendations.

Sincerely,

Rupa Shah, CPA
Auditor-Controller



Office of the Auditor-Controller

Response to the May 2022 Monterey County Civil Grand Jury Report

“MONTEREY COUNTY’S CANNABIS INDUSTRY UP IN SMOKE?”

FINDINGS

- F1. The estimated price for finished cannabis product dropped from \$1,600 per pound in 2020, to under \$500 per pound in 2021, due to a glut in the state cannabis supply.

Response F1:
Partially Agree

While the Cannabis product prices declined significantly from 2020 to 2021, the price reductions varied by cultivation type. Cannabis wholesale flower pricing as reported by the County Administrative Office's Cannabis Program Division, the highest monthly price point for 'Mixed Light' and 'Indoor' grow types were \$1,305 per pound and \$1,969 per pound respectively in 2020 reaching to the lowest monthly price point of \$400 per pound and \$790 per pound respectively in 2021.

- F2. The major source of cannabis revenue in Monterey County comes from assessed square footage of cultivation.

Response F2:
Agree

- F3. Growers paid around \$19 million in assessed taxes in 2021. An additional \$1.4 million in taxes were collected from other cannabis businesses, including dispensaries processors, quality assurance testing, delivery, transportation, and disposal.

Response F3:
Disagree

The County's financial system reflected Cannabis tax revenue of \$22 million in Fiscal Year 2020-21, consisting of \$19.6 million in cultivation taxes and \$2.4 million in other taxes such as dispensaries, distribution, and manufacturing.

- F4. In the past five years, just under \$70 million has been collected in Cannabis tax revenues.

Response F4:
Agree

For five fiscal years 2016-17 through 2020-21

- F5. Even with the glut of cannabis on the open market, Monterey County is still actively processing a nine-fold increase of provisional licenses over the active/complete licenses.

Response F5:
Disagree

While the County has experienced a significant backlog in approving Cannabis Business Permit applications, the number of anticipated provisional license processing is less than nine-fold. According to the numbers reported in May 2022 by the County Administrative Office's Cannabis Program Division, a total of 15 business permit applications have been approved out of a total of 109 applications submitted. The 94 remaining applications in the approval queue, if in good standing, may be granted provisional licenses equating to seven (7.3) times the applications approved. Additionally, the County's provisional licensing timeline is aligned with the State's timeline and intended to incentivize the operators to fulfill the permit requirements for final approval and help reduce the backlog.

- F6. County FTEs (staff) have increased from 6 to 28 in fiscal 2021-22 involving multiple agencies that regulate, inspect legal cannabis, and enforce the eradication of illegal cannabis in the County.

Response F6:
Partially agree

Agree with the concept of increased staffing. Disagree with the number of FTE (staff) stated. A total of 25.23 positions were budgeted for the Cannabis program activities in Fiscal Year 2021-22 to not only regulate legal and eradicate illegal activities but to also administer tax assessment and collection, financial tracking and oversight, internal and external communication, and related activities of the program.

- F7. The County Cannabis Program is the county regulatory infrastructure with a budget of \$6.3 million, a third of the cannabis tax revenue in 2021.

Response F7:
Disagree

\$5.6 million was budgeted for the Cannabis Program in fiscal year 2021 while the actual program cost was \$4.7 million. County's Cannabis tax revenue in fiscal year 2021 was \$22 million and total Cannabis Program revenue was \$23.7 million, which included other revenues such as permit fee, tax penalty etc. Comparing actual program expense against actual program revenue, the expense amounted to fifth (20%) rather than third (33%) of the revenue.

- F8. Consumers also pay state Sales Tax, state Excise Tax, and county or city sales taxes which results in a four-fold increase in price compared to unlicensed/illegal cannabis.

Response F8:
Partially Agree

Agree with the concept of additional taxes raising the cost of doing business for legal vs. illegal operators, though the proportion of cost difference is not verified independently.

- F9. Allocation of the Cannabis Tax/Assignment Fund (CTF) is difficult to track. The increase of property values due to requirements of the Cannabis Program has not been available to the public.

Response F9:
Agree

- F10. To help the passage of AUMA, the Board of Supervisors stated the new industry would bring new economic development and jobs to counter losses from NAFTA twenty-two years prior.

Response F10:
Agree

- F11. Monterey County did not hire an Economic Development Manager and staff until November 2021, five years after the Cannabis Program was established. The number of new jobs remains unknown.

Response F11:
Partially Agree

According to a report by the Cannabis Program Division to the Cannabis Committee in November 2021, cannabis-related businesses employed 2,400 employees as of July 2021.

- F12. Many inspections do not operate in a consistent manner nor with a standardized check list.

Response F12:
Agree

The County may have established a checklist. However, according to the industry survey feedback reported by the Cannabis Program Division, inconsistency remains in the inspection process. A more consistent and transparent use of checklist among other measures may aid in establishing consistency to the overall inspection process.

RECOMMENDATIONS

- R1. Require the Monterey County Cannabis Program to provide a comprehensive annual report detailing all CTF revenues, allocations, and reserves. This report should include detailed information including budget and distributions to community service agencies. The Cannabis Program must publish its annual report on their website. Implementation by December 31, 2022.

Response R1:

Agree

The Auditor-Controller's Office (ACO) was allocated a position in fiscal year 2021-22 to provide Cannabis accounting, fiscal oversight, and support to the County Administrative Office's Cannabis Program Division (Cannabis Program). Upon filling the position, the ACO has begun working with the Cannabis Program and County departments in coordinating fiscal activities. The ACO will also support the Cannabis Program in compiling the annual fiscal report.

- R2. Revise Monterey County Cannabis Program webpage to include easy-to-follow directions for accessing revenues and expenditures. Implementation by December 31, 2022.

Response R2:

Agree

Accessing and compiling complete and accurate information of cannabis revenues and expenses is critical in understanding the program's fiscal trends, projecting future need, and help make informed decisions.

- R3. Monterey County to monitor and report on improved property value and tax re-assessment due to Cannabis Compliance Regulations. Implementation by December 31, 2022.

Response R3:

Neither Agree nor Disagree

It is uncertain currently whether monitoring and reporting work is necessary or beneficial.

- R4. Direct the Economic Development Manager to complete a study on new jobs created by the cannabis industry and its impact on the local economy. Implementation by June 30, 2023.

Response R4:

Neither Agree nor Disagree

It is uncertain currently whether a study is necessary or beneficial especially given the volatility of this relatively new industry and since the data for new jobs created is available.

- R5. Include in the Cannabis Program annual report, an accounting of all FTEs funded by the CTF. Implementation by December 31, 2022.

Response R5:

Agree

- R6. Cannabis Program adopt a consistent process for inspection and check list. Implementation by December 31, 2022.

Response R6:

Agree