

# Cannabis as a Fiscal Solution: Myth or Reality

*David McPherson, Margaret O'Brien, Todd Kleperis*

# Statewide Industry Overview

David McPherson, Director of Cannabis Compliance, HdL



# HOW WILL CANNABIS RULE CHANGES IMPACT CITIES?



# STATE REGULATIONS: KEY CHANGES

- Contract manufacturing-white labeling may be restricted
- Retailers and Non-Store Front Retailers can no longer be banned from delivering into a local agency
- A delivery service can only carry up to \$5,000 in cannabis products and cash
- The value of cannabis goods carried in the delivery vehicle for which a delivery order was not received may not exceed \$3,000

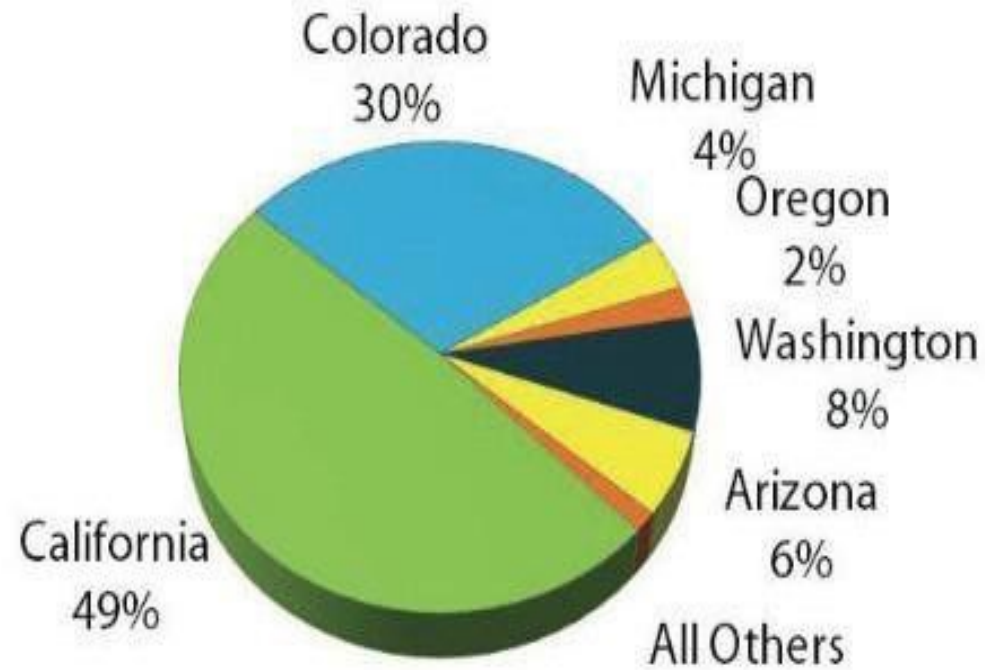




# CANNABIS ECONOMIC TRENDS

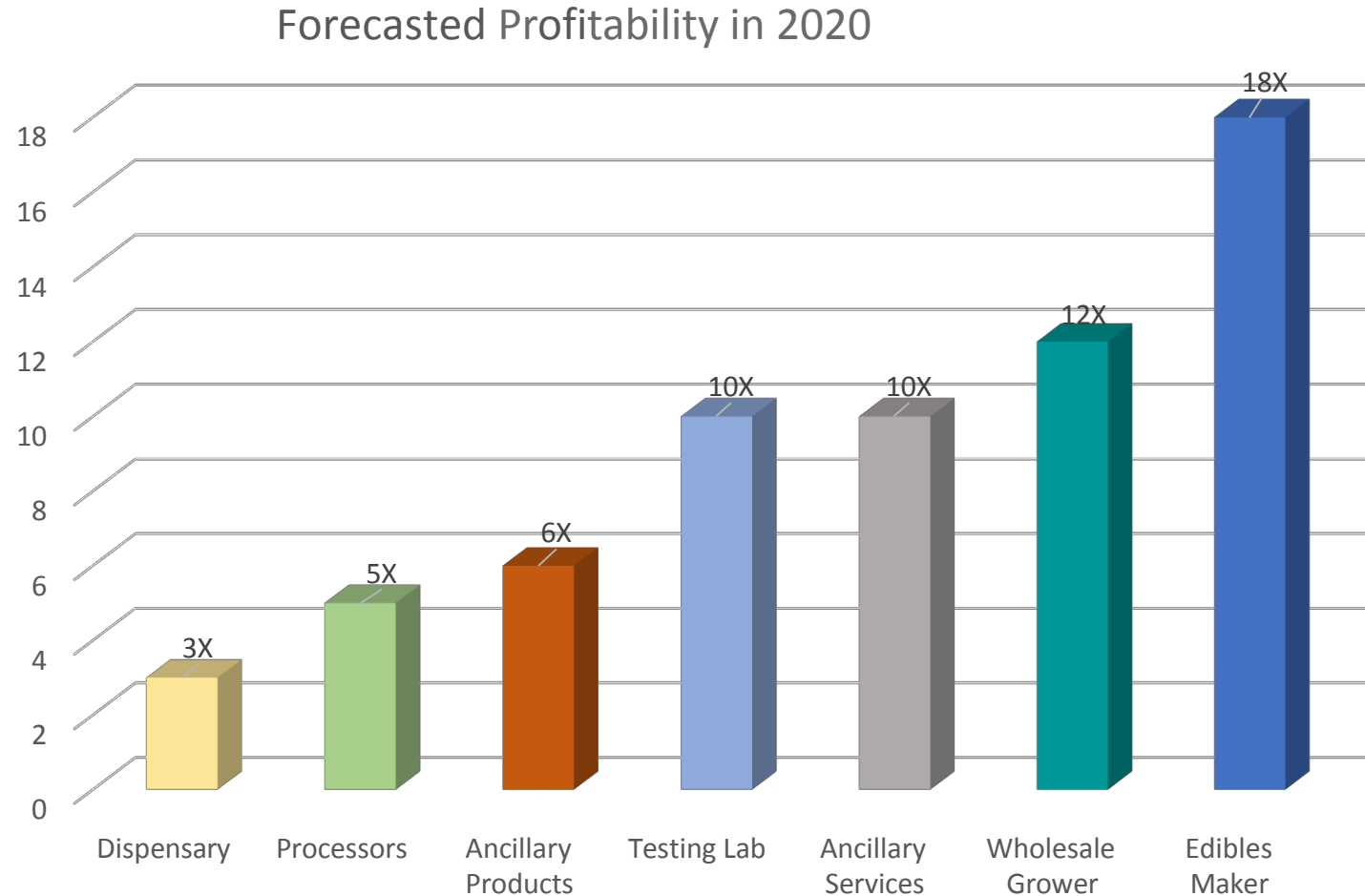
- ✓ Cannabis industry set to generate \$7.6 billion in California by 2020
- ✓ Local communities are looking to benefit financially from commercial companies
- ✓ Creates jobs in the community directly and indirectly
- ✓ Misconceptions of sales/use tax exemption H&S 11362.71
- ✓ Saturation of market will impact cities
- ✓ Impacts on property values and lease agreements for other businesses

# CALIFORNIA'S MARKET SHARE

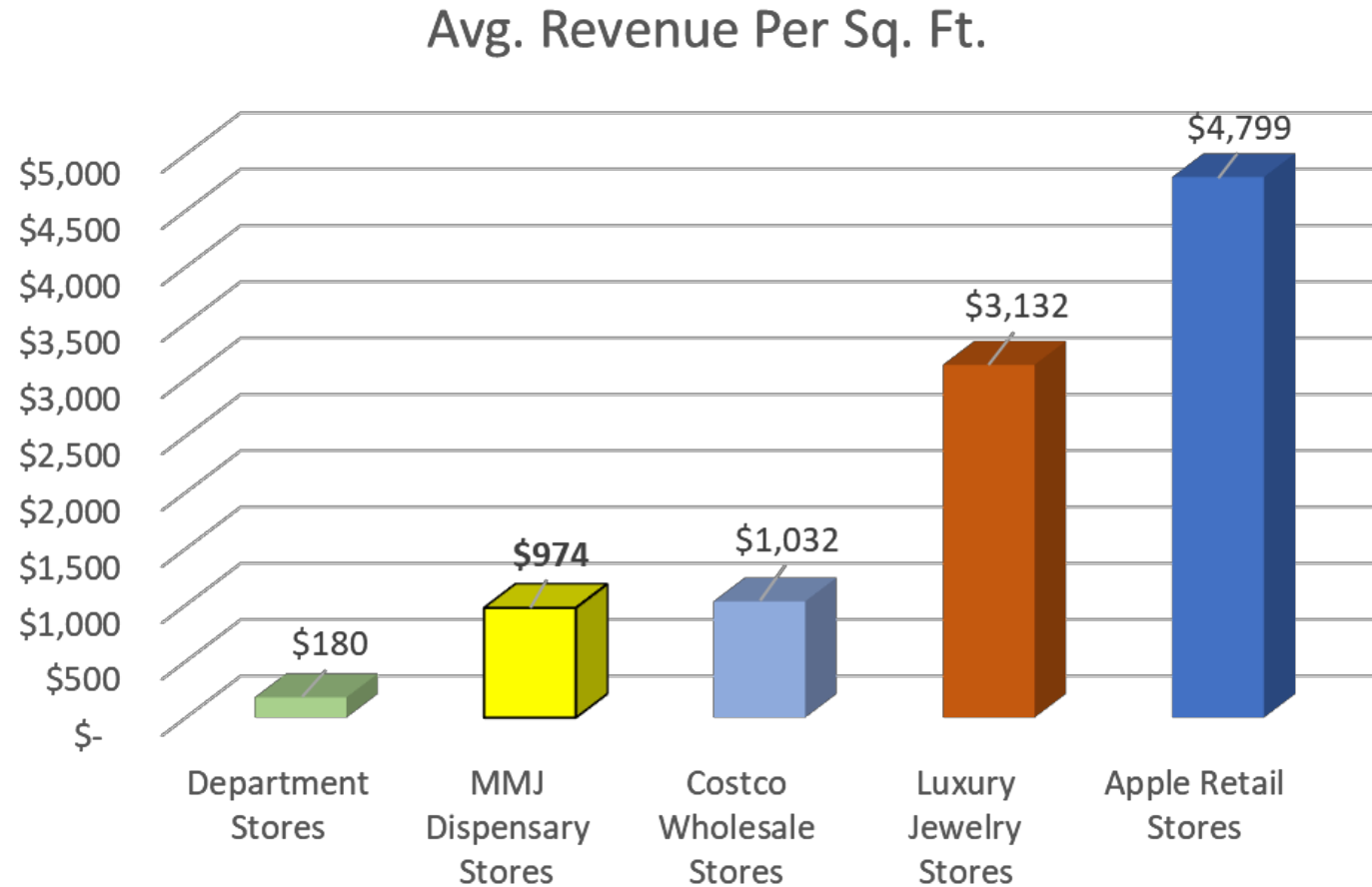




# FORECASTED PROFITABILITY IN 2020

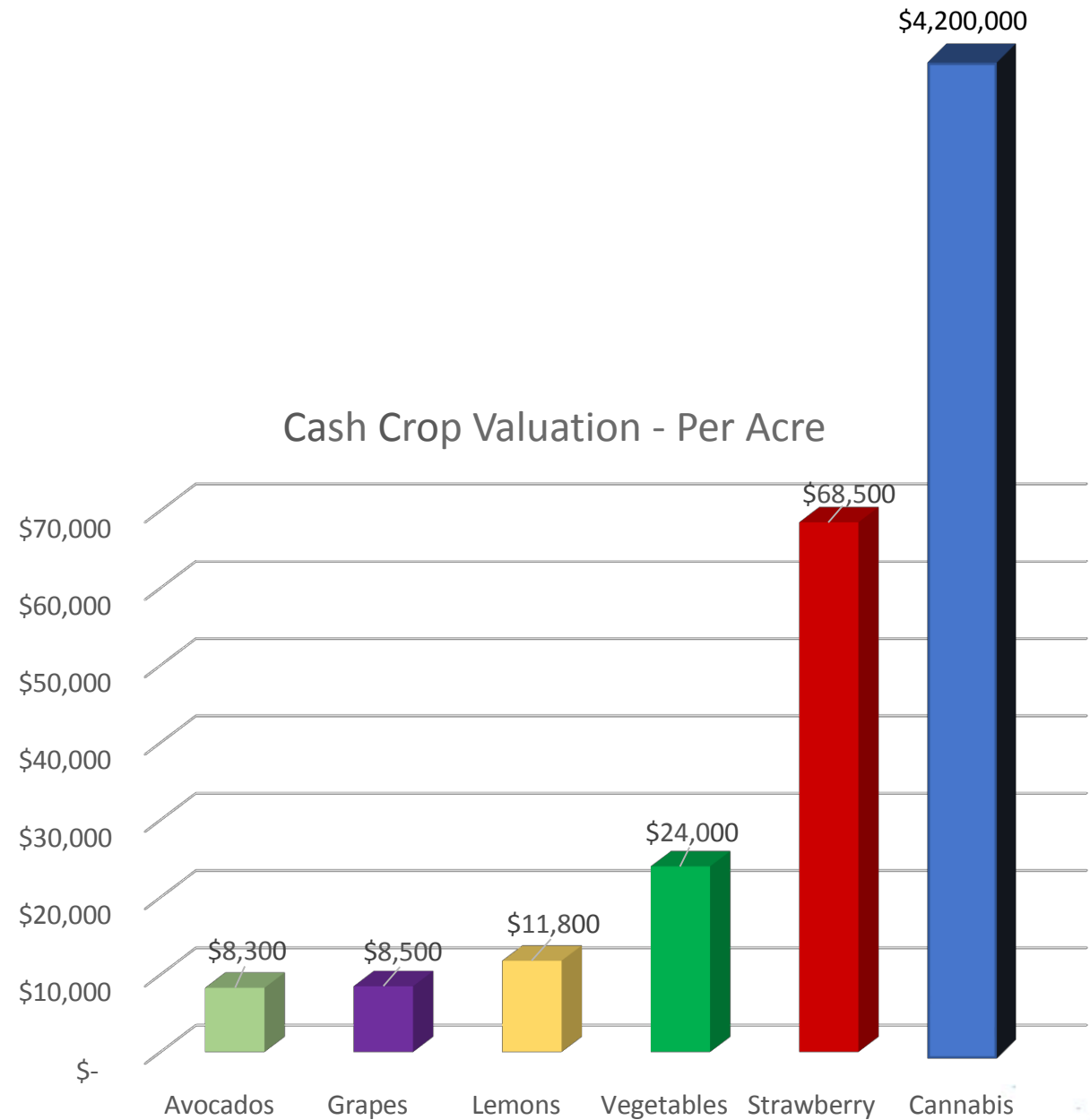


# AVERAGE ANNUAL REVENUE PER SQ. FT.





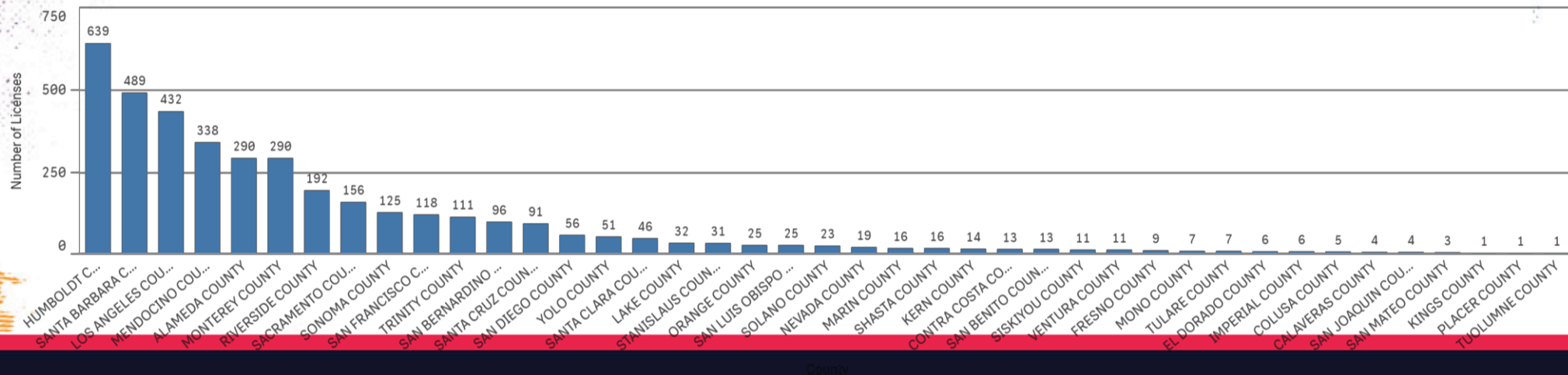
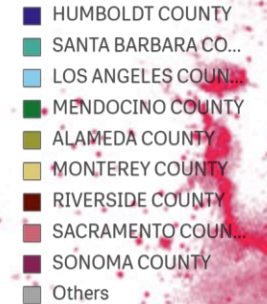
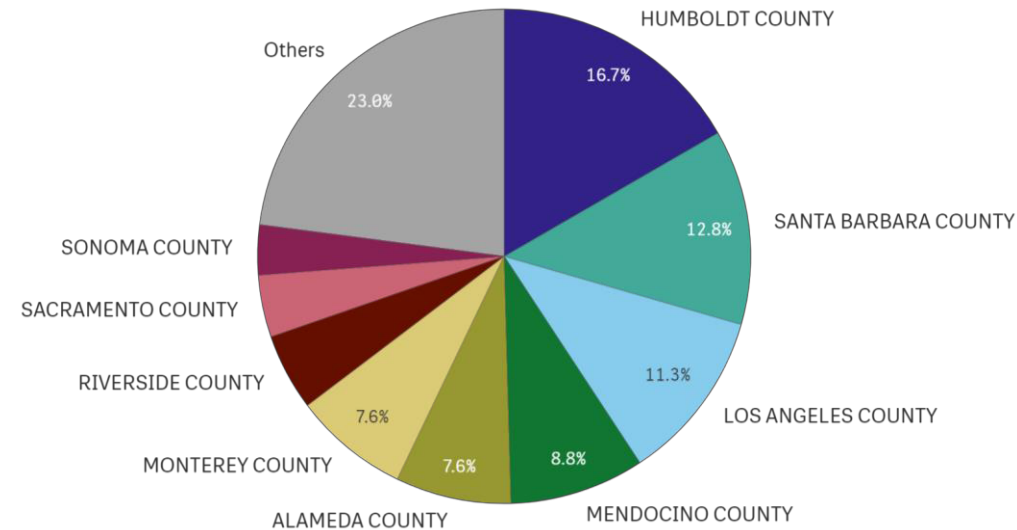
# CASH CROP VALUATION



# TEMPORARY LICENSES BY COUNTY

Total Temporary Licenses  
as of November 27, 2018

3,830

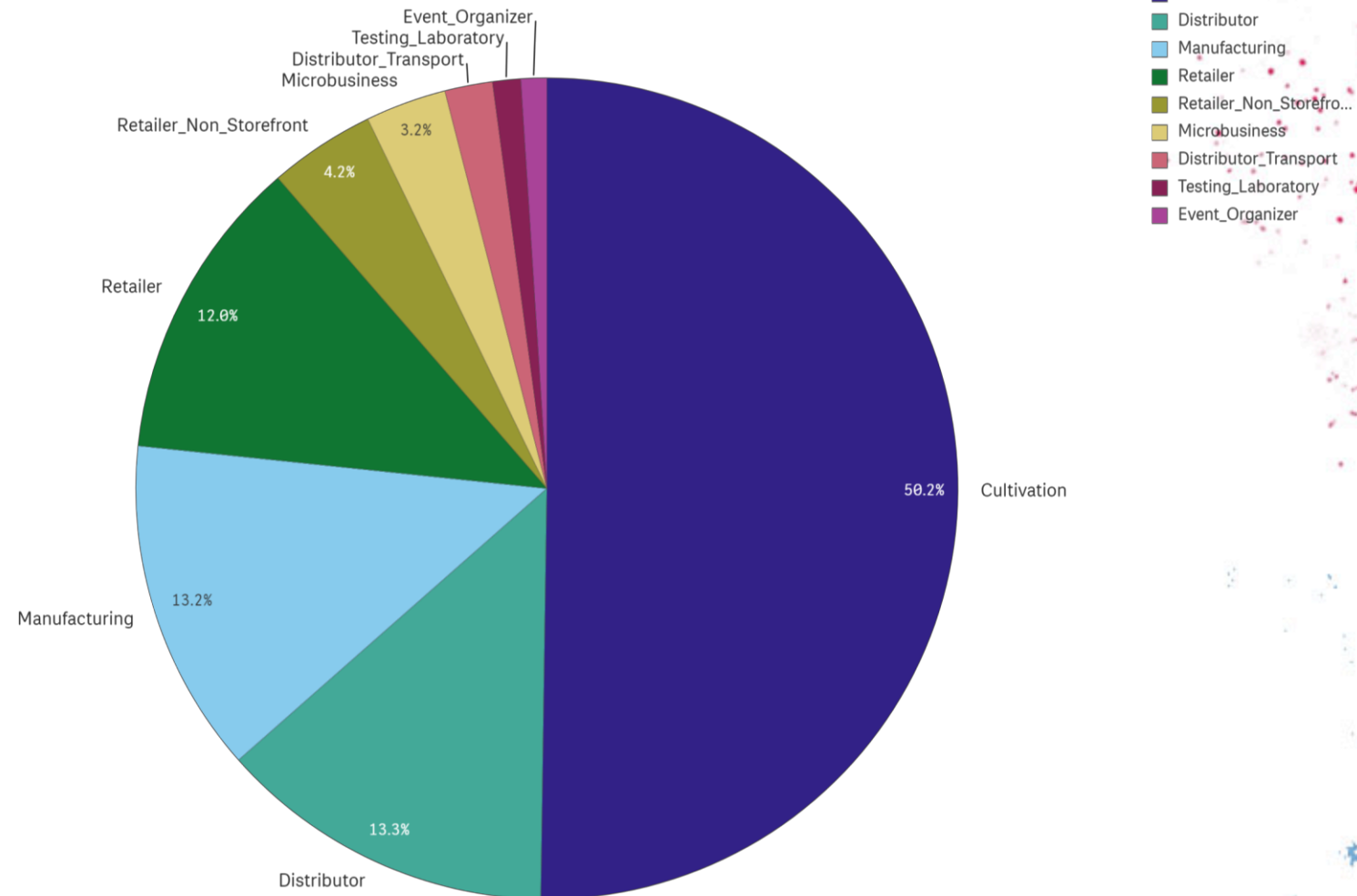




# TEMPORARY LICENSES BY TYPE

Temporary Licenses Issued  
as of November 27, 2018

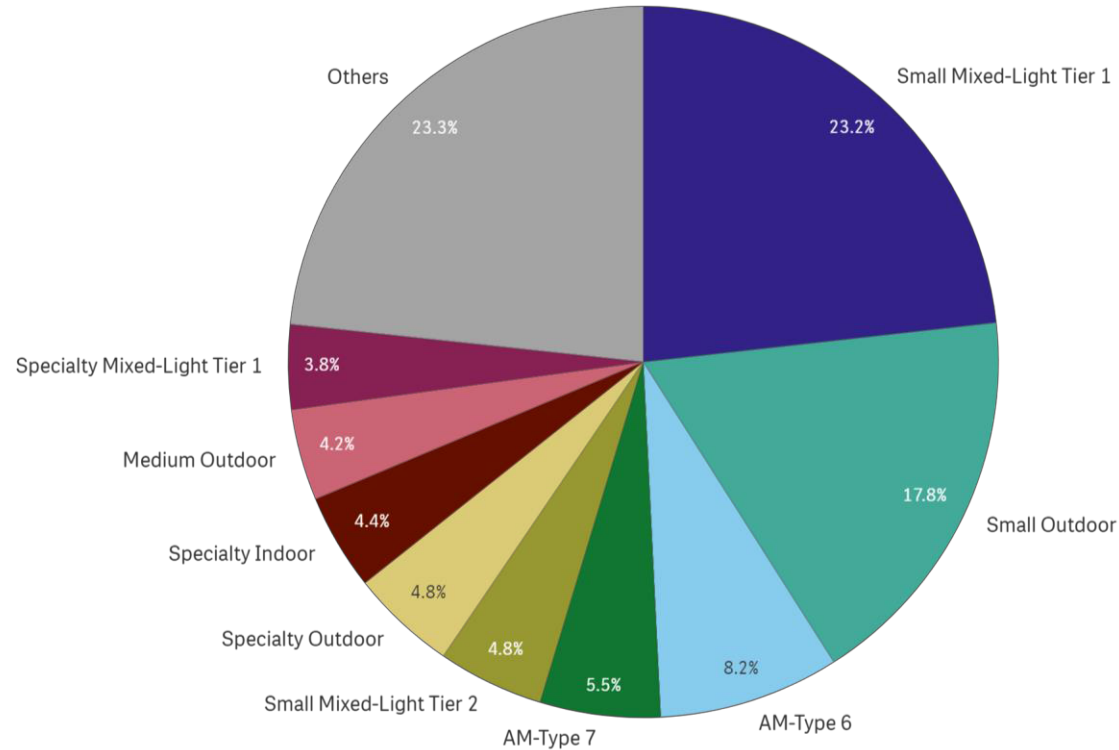
3,830



# CULTIVATION & MANUFACTURING TEMP LICENSES BY SUBTYPE

Cultivation & Manufacturing Temporary Licenses Issued  
as of November 27, 2018

2,428



- Small Mixed-Light Tier...
- Small Outdoor
- AM-Type 6
- AM-Type 7
- Small Mixed-Light Tier...
- Specialty Outdoor
- Specialty Indoor
- Medium Outdoor
- Specialty Mixed-Light ...
- Others



# RETAIL GROSS RECEIPTS: 4 QTRS

2017 Q4 through 2018 Q3

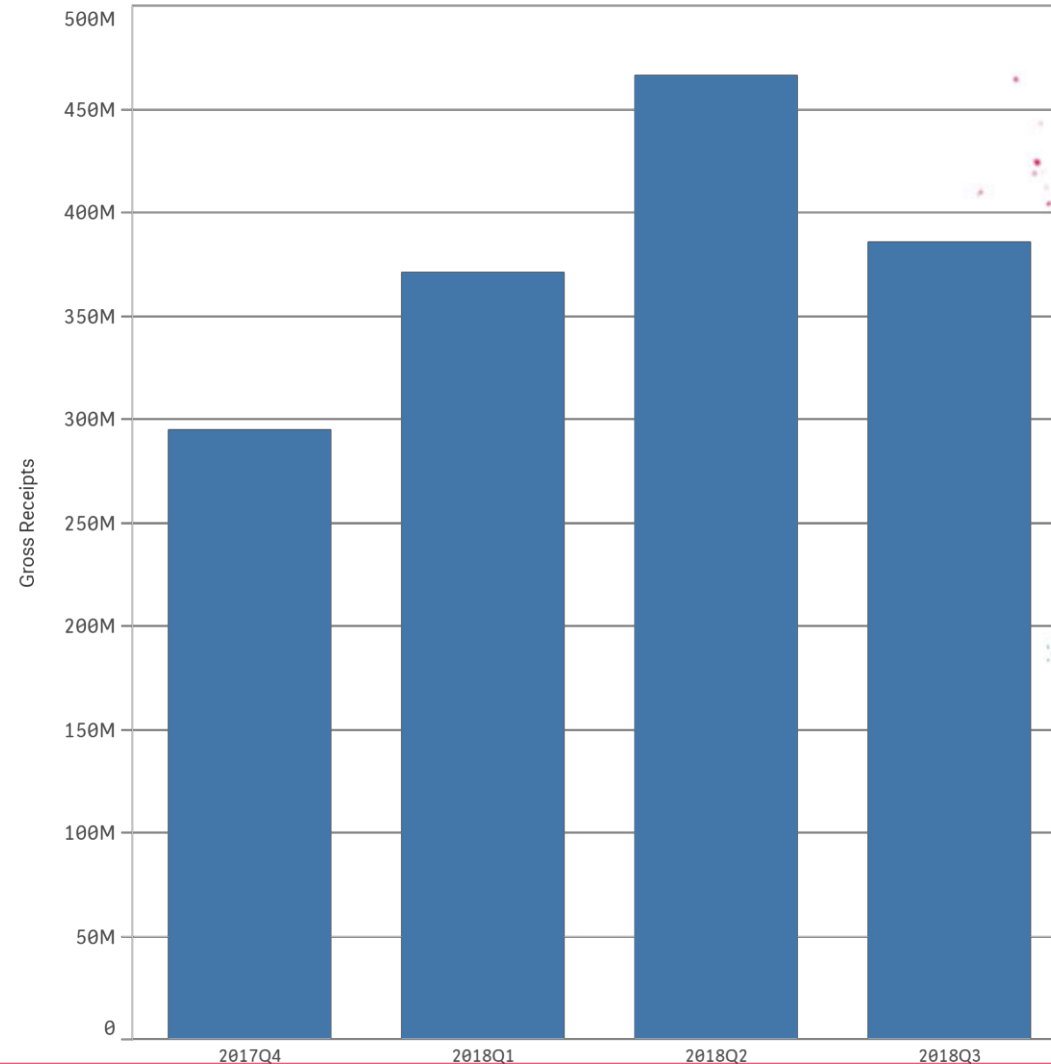
Gross Receipts

\$1,517,048,052

Local Tax Allocation (1%)

\$15,170,481

Gross Receipts by Quarter

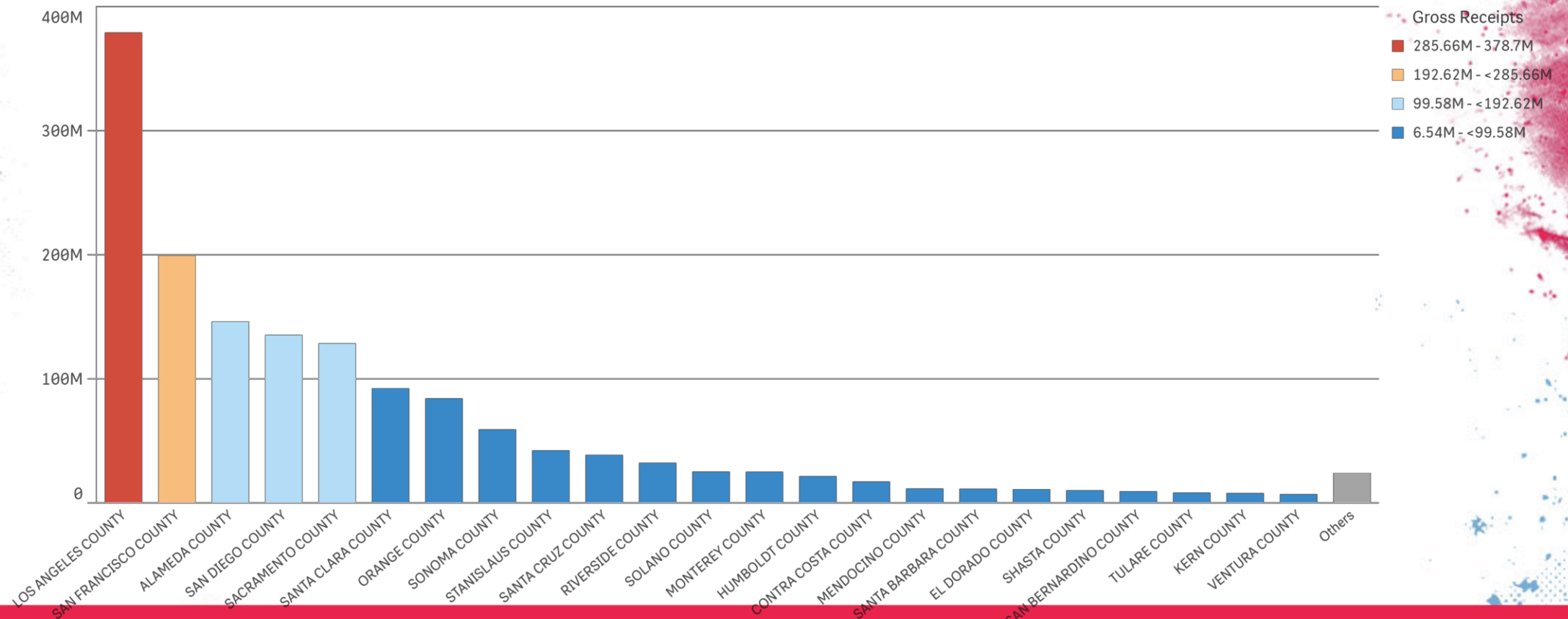


# RETAIL GROSS RECEIPTS: 4 QTRS

2017 Q4 through 2018 Q3

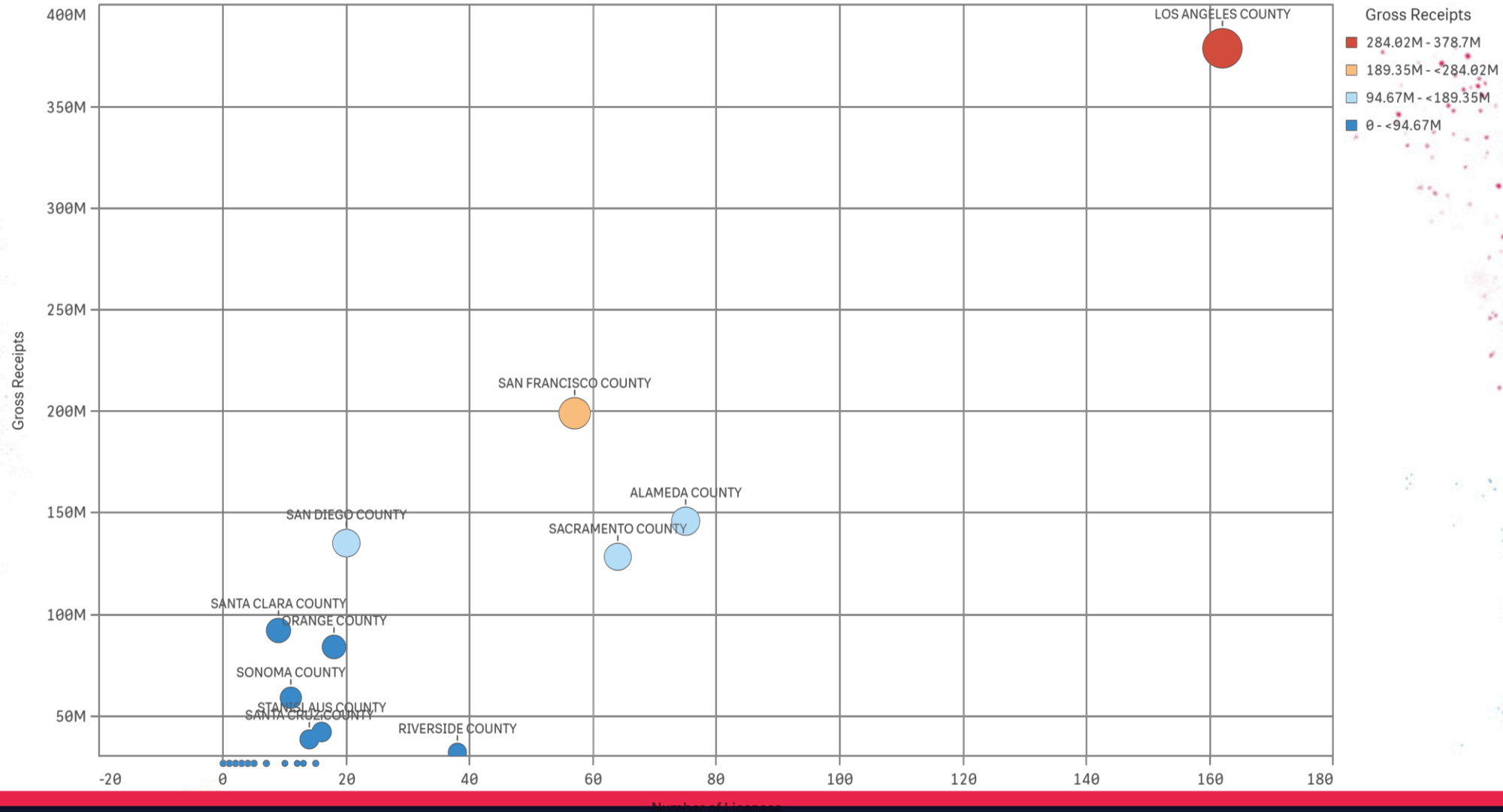
\$1,517,047,948

Retail Gross Receipts by County



# RETAIL LICENSES & GROSS RECEIPTS BY COUNTY: 4 QTRS

2017 Q4 through 2018 Q3





# HOW WILL MERGERS & ACQUISITIONS IMPACT THE CANNABIS INDUSTRY?



# HOW DO MERGERS, ACQUISITIONS AND THE STOCK MARKET IMPACT CANNABIS BUSINESSES?

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There are 35 cannabis businesses listed on the stock exchange.

- Creates "first mover advantage" over other businesses not listed on the Canadian or U.S. stock exchanges.
- Business can:
  - leverage millions of dollars in funding to scale business operations and brands;
  - acquire other businesses to develop/expand their business model;
  - build infrastructure to become vertically integrated throughout the state and country;
  - sustain long term stabilization, which other businesses may not be able to achieve.



# TOP CANNABIS BUSINESS STOCKS

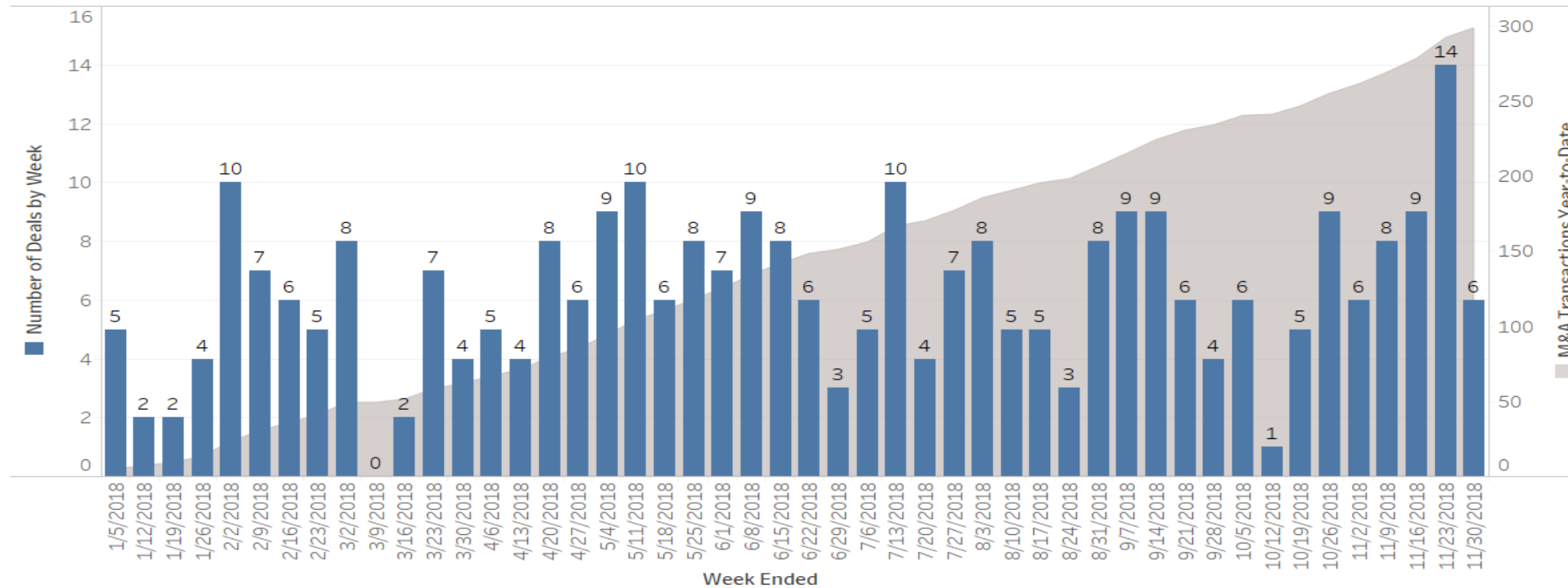
U.S. Dollar Reporting

Company Name	◆ Stock Symbol ◆	◆ Quarter Ended ◆	◆ Quarterly Sales ◆	◆ Y/Y Growth ◆	◆ Next Financials ◆
Trulieve	(CSE: TRUL)	06/30/18	\$23.3m	947%	11/19/18
MedMen Enterprises	(CSE: MMEN)	06/30/18	\$20.6m	1317%	11/29/18
Charlotte's Web Holdings	(CSE: CWEB)	06/30/18	\$17.2m	90%	~11/29/18
Curaleaf	(CSE: CURA)	06/30/18	\$14.6m	234%	11/26/18
Green Thumb Industries	(CSE: GTII)	06/30/18	\$13.6m	291%	11/27/18
CV Sciences	(OTCQB: CVSI)	09/30/18	\$13.6m	143%	~04/01/19
KushCo Holdings	(OTCQB: KSHB)	05/31/18	\$12.9m	173%	~11/29/18
Harvest Health & Recreation	(CSE: HARV)	06/30/18	\$10.5m	139%	~11/29/18
Tilray	(NASDAQ: TLRY)	09/30/18	\$10.0m	86%	~03/18/19
GrowGeneration	(OTCQB: GRWG)	09/30/18	\$8.4m	109%	~04/01/19
Terra Tech	(OTCQX: TRTC)	09/30/18	\$5.8m	-33%	~03/18/19
Golden Leaf Holdings	(CSE: GLH)	09/30/18	\$5.1m	63%	~04/30/19
Medicine Man Technologies	(OTCQX: MDCL)	09/30/18	\$4.6m	401%	~04/01/19
Planet 13 Holdings	(CSE: PLTH)	09/30/18	\$4.9m	62%	~04/30/19
Innovative Industrial Properties	(NYSE: IIPR)	09/30/18	\$3.9m	152%	~03/18/19
Halo Labs	(NEO:HALO)	09/30/18	\$3.6m	10%	~04/30/19
GW Pharma	(NASDAQ: GWPH)	06/30/18	\$3.5m	9%	~12/09/18
Cannex Capital	(CSE: CNNX)	07/31/18	\$3.4m	122%	~12/31/18
Marimed	(OTC:MRMD)	09/30/18	\$3.4m	98%	~04/01/19
Surma	(OTC:SRNA)	09/30/18	\$3.3m	112%	~04/01/19
Helix TCS	(OTC:HLIX)	09/30/18	\$3.1m	176%	~04/01/19

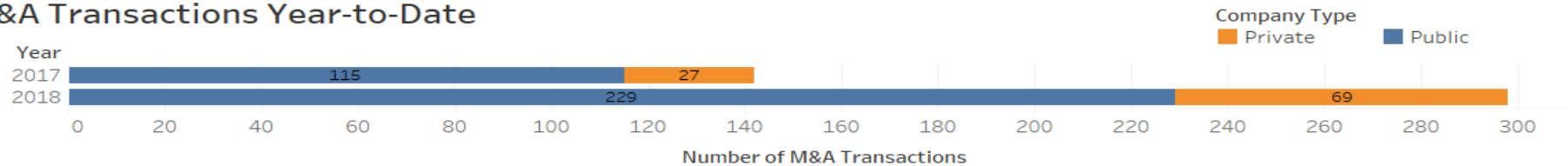


# MERGERS & ACQUISITIONS YTD

M&A Transactions by Week



M&A Transactions Year-to-Date



Source: Viridian Capital Advisors

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# WHO'S LOOKING AT CANNABIS?





# WHO'S LOOKING AT CANNABIS?





## DO CANNABIS BUSINESSES CREATE LIVING WAGE JOBS?

- The average salary in California is \$51,910 for all employment in the state (\$24.96 per hour)
- Cannabis starting positions pay on average \$29,120 annually (\$14 per hour)
- The average cannabis job pays \$34,486 annually (\$16.58 per hour)
- Most cannabis businesses do not provide health, vacation, or retirement benefits
- Do cannabis businesses compete for market share of fast food, warehouse or agriculture labor staff?

# CANNABIS TOP PAYING POSITIONS



GROW MASTER  
*(master cultivator)*  
**\$100,000 - \$120,000**



EXTRACTION SPECIALIST  
*(master extractor)*  
**\$90,000 - \$120,000**



DISPENSARY MANAGER  
**\$80,000 - \$120,000**

# CALIFORNIA'S CANNABIS MARKET

- ✓ Total statewide cannabis production: 13.5 million pounds  
(CDFA Estimate)
- ✓ Total statewide cannabis consumption: 2.5 million pounds  
(CDFA Estimate)
- ✓ Total statewide cannabis consumption: 1.6 million pounds
- ✓ Anticipated number of cultivation licenses statewide: 6,450
- ✓ Current potential cannabis production: 6.7 million pounds



# LOCAL CANNABIS BALLOT MEASURES

- There were 79 local cannabis measures on the November 2018 ballot related to legalization, taxes, and sensitive use boundaries
- California had 6 cannabis tax measures on the ballot which failed; all were Special Taxes or Citizen Initiatives
- Tax Fairness Act of 2018 created scare for local agencies

# CUMULATIVE CANNABIS TAXES

(HdL Analysis)

Cumulative Cannabis Taxes - HdL Analysis			
CATEGORY	AMOUNT	INCREASE	CUMULATIVE PRICE
Producer Price	\$1,000	\$1,000	\$1,000
State Cultivation Tax	\$9.25/oz	\$148	\$1,148
Local Tax	3.50%	\$35	\$1,183
Batch Testing	\$50/lb, + 0.50%	\$55	\$1,238
Wholesale Price w/ Taxes		\$1,238	
Total Tax at Wholesale		\$238	
Tax as %		23.80%	
Distributor Markup	30.00%	\$371	\$1,609
Local Tax	2.00%	\$32	\$1,642
Total Distributor Price		\$1,642	
Total Taxes at Distributor		\$270	
Total Tax as %		16.46%	
Retailer Markup	100.00%	\$1,642	\$3,283
Local Tax	4.00%	\$131	\$3,415
State Excise Tax	15.00%	\$492	\$3,907
Total Retailer Price		\$3,907	
Total Taxes at Retail		\$894	
Total Tax as %		22.88%	
CA Sales Tax (non-medical)	9.00%	\$352	\$4,259
Local Sales Tax	1.00%	\$39	\$4,298
<b>Total Taxes at Retail</b>		<b>\$1,285</b>	
<b>Total Tax as %</b>		<b>29.89%</b>	
<b>Total Local Tax</b>		<b>5.53%</b>	<b>\$237.58</b>

# PROP 64 GRANT FUNDING

What kind of cannabis permits must my agency allow in the City/County to be eligible for the funding?

- Personal use outdoor
- Cultivation and Retail

How will the grant funds be distributed?

- Grant funds will be disbursed based on population of eligible cities in the pool.

When will the funds be available?

- Funds are estimated to be distributed around June 2019



# Taxes & Loans, City of Oakland

Margaret L. O'Brien, Revenue & Tax Administrator, City of Oakland

# A Quick History of Cannabis in Oakland

- July 2009, with the voter approval of Measure F, Oakland became the first City in the nation to impose a tax on gross receipts of medicinal cannabis businesses. The City was home to 4 approved medical cannabis businesses at the time.
- November 2017:
  - Oakland Council approved a maximum of eight additional store-front dispensaries,
    - With four reserved for Equity Permit Applicants, each calendar year.
  - No limit on delivery-only dispensaries.
- Tax rate 5% medical, 10% recreational
- November 2018: Voters approved Measure V, giving Council the authority to decrease gross receipts tax on recreational cannabis. Council has taken no action.
- Employees must be paid a living wage (\$13.80/hr. January 1,2019).

# Equity Permits & Equity Loans





# Equity Permit Program

- Equity Permit Program is designed to “promote equitable business ownership and employment opportunities in the cannabis industry in order to decrease disparities in life outcomes for marginalized communities and address the disproportionate impacts of the war on drugs in those communities.”
- 4 Permits issued January 31, 2018
- Oakland resident
- Annual income less than 80% of Oakland Average Median Income (\$57,778 for 2016 according to US Census)
- Live in one of 21 Police Beats or arrested after 11/05/1996 and convicted of cannabis crime committed in Oakland

# Equity Loan Program

City set-aside \$3 million to create a revolving loan fund for equity applicants.

- Tier 1 – Establish the Business. Loan amount – Up to \$5,000
- Tier 2 – Get Compliant. Loan amount – Up to an additional \$10,000
- Tier 3 – Open the Business. Loan amount – Up to an additional \$15,000
- Tier 4 – Start Operations. Loan amount – Up to an additional \$20,000
- Tier 5 – Grow the Business. Loan amount – Up to an additional \$50,000.  
Tier 5 is only available to businesses that are either 100% owned by equity qualified individuals or businesses that match the City's loan amount with an equal-sized loan from a third-party.

# Primary Loan Terms

- Applicant- must be a City of Oakland verified equity applicant
- Interest- interest free loan
- Loan maturity- 48 months (4 years)
- Repayment- begins 1 month after the date funds are made available.
- Maximum loan amount- The maximum amount lent to any one individual or business that qualifies is \$100,000.
- Personal guarantee- Borrower that own more than 20% of the entity will be required to provide a personal guarantee for 100% of the loan.



# Ineligible Use of Loan Funds

- Unlicensed cannabis business
- Buying unlicensed inventory
- Relending or investing
- Non-cannabis businesses that serve the cannabis industry
- Personal expenses or the acquisition of personal property such as cars, homes, etc.
- To engage in prohibited operations as specified in the regulation



# Taxes





# Tax Requirements

The tax requirement is straight forward, much like what many cities already have on the books, and that is....

*“If you are in the business, whether sanctioned by the City or not, you are subject to pay the tax.”*

# Oakland Cannabis Trivia Tidbits

- Currently, Oakland has 16 permitted storefront dispensaries.
- 601 registered active businesses (69 closed accounts)
- Likely 55 businesses that are registered as active but actually closed
- 3 major tax assessments moving through the process
- Approximately \$2 million in penalty assessments
- 200% increase in registered businesses
- Current tax rate is
  - 05% medical
  - 10% recreational
- Approximately 400+ business have yet to make a first tax payment due to City's 1<sup>st</sup> year/ 2<sup>nd</sup> year tax code. First payments will be received in 2019.



# Cannabis Tax & Fee Collection

Cannabis - Medical	CY 2016	CY 2017	CY 2018	CY 2019
Number of registered businesses	101	189	601	
Increase to previous year	33	88	412	
		87.13%	217.99%	
Breakdown of tax and fee revenue				
Number of businesses paid	97	169	549	
Paid more than registration fee	64	89	131	
Registration Fees Paid	\$ 3,234	\$ 7,840	\$ 40,964	
1st Year Taxes Paid (in second year)	\$ 10,723	\$ 394,800	\$ 1,163,256	
2nd Year Taxes Paid (in second year)	\$ 4,620,143	\$ 6,229,800	\$ 6,593,222	
<b>Total Taxes &amp; Fees Paid</b>	<b>\$ 4,634,100</b>	<b>\$ 6,632,440</b>	<b>\$ 7,797,442</b>	

Won't this be interesting? 5% tax rate medical -  
10% tax rate recreational - pending audits &  
collection actions

# Banking & Cash Handling

Todd Kleperis, CEO HardCar Security





# BANKING ISSUES

- Cash transactions due to nature of business.
- Limited banking options due to Federal laws. But is still legal to conduct transactions under BSA (SARS).
- Safety issues related to transportation of cash for operators and City/County staff.

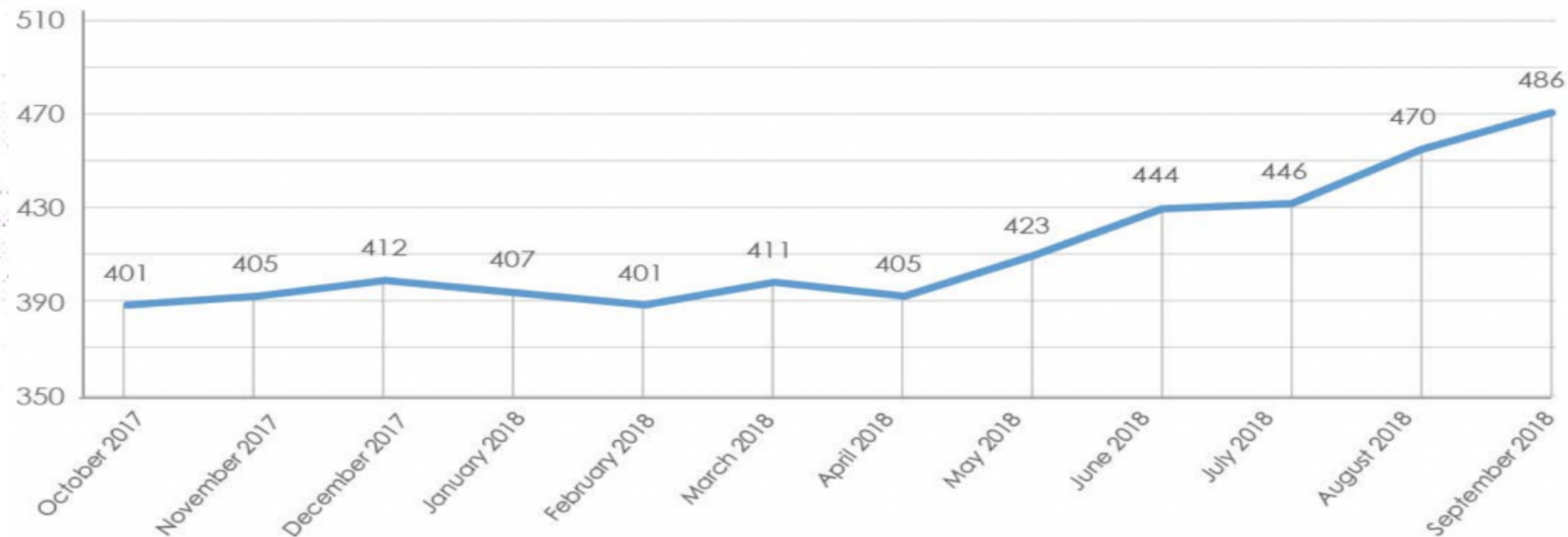
# BANKS & CREDIT UNIONS SERVING CANNABIS COMPANIES

- Banks and credit unions have the ability to certify businesses to determine if they want to do business with them.
- Determining which banks and credit unions are doing business with cannabis operators is difficult due to confidentiality agreements.
- The number of banks/credit unions serving the cannabis industry has grown in recent years.
  - March 2014: 51
  - March 2017: 368
  - September 2018: 486



# FINANCIAL CRIMES ENFORCEMENT NETWORK (FinCEN)

*Number of Depository Institutions Actively Banking Marijuana Related Businesses in the United States  
(Reported in SARs)*



# Cannabis Impact

COMMUNITY IMPACT

SOCIO-ECONOMIC GROWTH

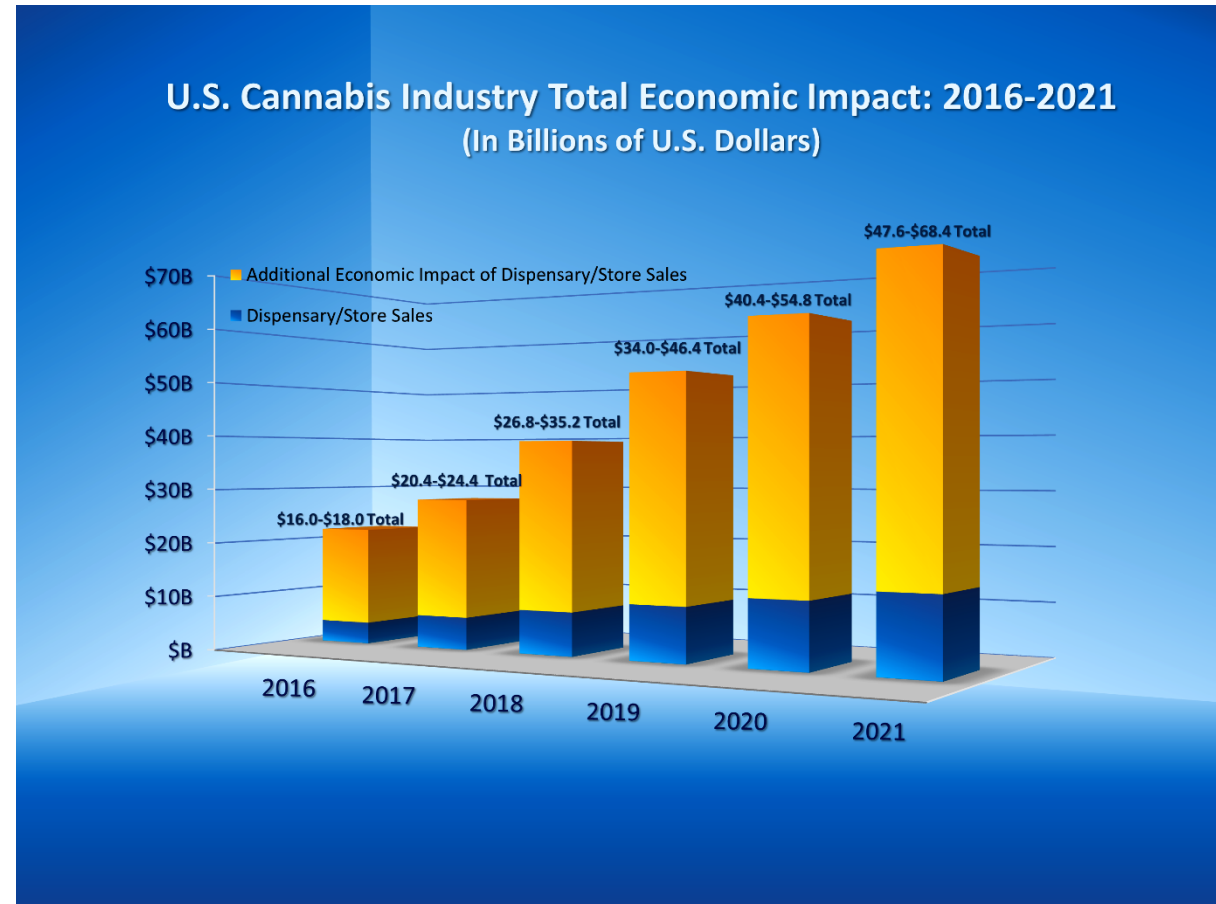
CRIME REDUCTION

INCREASED PROPERTY VALUES

EMPLOYMENT

TAX REVENUES

ANCILLARY BUSINESS GROWTH





# Call to Action

- The growth of the industry is showing no signs of slowing down; both municipalities and their financial institutions stand to gain from embracing the legal cannabis industry.
- The call to action for banks, credits unions and other financial institutions - extend banking services to cannabis related businesses which have been investigated and proven to comply with required state laws.
- The call to action for state regulators is to have a system in place to monitor all license holders to ensure compliance and so that financial institutions validate legitimate business operations.

# Banking Solutions

Transportation companies have partnered with credit unions in the cannabis industry to safely bank cannabis cash

1. Client prepares cash for deposit
  - Count and verify cash/strap and bundle cash according to instructions/prepare deposit ticket and deposit bag
2. Picking up deposits
  - On scheduled day at business location in armored trucks driven by trained Agents
3. Processing the cash
  - Counts and verifies cash in a secure location/prepares deposit for FRB
4. Depositing into FRB
  - In armored trucks driven by trained Agents/credited to Credit Union's master account/Credit Union credited to Client's account



# THE DECISION IS YOURS

