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Office of the City Auditor  
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August 7, 2018

LaTonda Simmons, City Clerk  
1 Frank H. Ogawa Plaza  
Oakland, CA 94612

RE: Financial Analysis of the Cannabis Business Tax Measure for November 2018  
Ballot

Dear City Clerk:

I am pleased to submit an impartial analysis of the *Cannabis Business Tax Measure*, which proposes to amend the City of Oakland's Business Tax Municipal Code, related to medical cannabis (Section 5.04.480) and non-medical cannabis (Section 5.04.481) businesses on the November 2018 ballot.

The Office of the City Auditor prepared this analysis in accordance with Municipal Code Section 3.08.210, which requires the Office prepare an impartial financial analysis of each measure qualifying for ballot placement.

If you have any questions, please contact Carlos Hickerson, Assistant City Auditor at 510-238-7609.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Brenda D. Roberts', with a stylized flourish at the end.

Brenda D. Roberts  
City Auditor

## **Summary**

This Measure, if adopted by a majority (more than 50%) of voters, would amend the City of Oakland's Business Tax Municipal Code, related to medical cannabis (Section 5.04.480) and non-medical cannabis (Section 5.04.481) businesses. The code amendments would:

- 1) allow businesses engaged in cannabis manufacturing and/or cultivation to deduct the value of raw materials from gross receipts in the calculation of business tax (similar to manufacturing businesses, Section 5.04.390);
- 2) allow cannabis businesses to remit business taxes on a quarterly basis; and
- 3) authorize the City Council to amend the business tax on medical and non-medical cannabis in any manner that does not increase the tax rate, following a public hearing.

Oakland currently taxes all types of cannabis businesses and the rates are based on whether they operate in the medical or non-medical industries, at 5 percent and 10 percent, respectively, of gross receipts. The tax is applied to every activity in the industry's supply chain, including cultivation, manufacturing, delivery, testing, and retail sales.

The intent of this Measure is to provide the City flexibility to respond competitively to tax rates of neighboring jurisdictions. Cannabis businesses may consider tax rates a factor when deciding where to situate their businesses. City Council may adjust the tax rate for cannabis businesses, but may not increase the tax more than the current stated rates. It cannot be quantified or confirmed that adjusting tax rates would significantly impact tax revenue to the City of Oakland.

## **Financial Impact**

If the Measure passes, the City would incur an estimated \$30,000 capital improvement cost to update its taxpayer system.

This Measure enacts a general tax for unrestricted general revenue purposes and would go into effect ten (10) days after the vote is declared by Oakland City Council.

## **Disclaimer**

The Office of the City Auditor has not audited and, as such, has not validated the City of Oakland Finance Department's financial and statistical analysis that supports this measure. References to this data in our independent analysis represent the best data available at this time.